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Nation's Business

Published by the U.S. Chamber of Commerce Washington, D.C.

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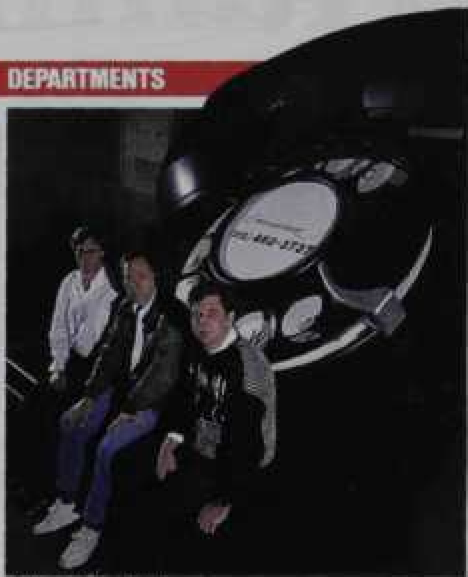

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COMMENTARY

Letters

PHOTO: © CHUCK KNEYSE—BLACK STAR

Businessman Danny Fontenot tutors in Baton Rouge, La. Letters below and the article on page 27 comment on other forms of business help to schools.

The ABCs Of Educating America's Youth

Your April cover story, "Would You Hire Them?" highlights the critical need for private-sector support of public education.

American business can presently expect to hire more than a million new workers a year who lack basic skills. While the nation's corporations donate more than $1 billion annually to public education, the cost of remedial training and lost productivity will add $25 billion to $30 billion a year to industry's training costs.

Clearly, donating funds—while extremely important—is not enough. That is why your article's examples of direct business involvement in efforts to improve the education and employment prospects of our nation's youth, and particularly those who are socioeconomically disadvantaged, are so important.

Carl W. Stenberg
Executive Director
The Council of State Governments
Lexington, Ky.

Partnerships between business and education are not a new idea. They have a history of past and present successes and growth.

Junior Achievement, a national economic education organization founded in 1919, reached more than 1 million students in 1987-88. It is supported financially by thousands of U.S. companies, many of which also provide numerous volunteer hours in classrooms throughout the country.

Junior Achievement programs are geared toward helping students become literate in the ABCs of economics and business.

Mariann Brooks Lehmann
Program Manager
Junior Achievement of Lancaster-Lebanon Inc.
Lancaster, Pa.

Gender Balance

Thank you for the gender balance in Sharon Nelton's article "Six Ways To Be 'Family-Friendly'" [March]. It's nice to see recognition of a father's desire to spend time with his kids.

The article is especially refreshing in the woman-focused turmoil over the "mommy track."

Jack Kammer
Baltimore

Making Nonprofits Play Fairly

As one of the many business people affected by unfair competition from the commercial activities of nonprofits, I was gratified to see your article "Nonprofit Groups: An Unfair Edge?" [April].

I hope your article will stimulate more people in the private sector to become active in petitioning Congress to adopt legislation to eliminate the inequities that exist when nonprofits compete with taxpaying small businesses in the same marketplace. At a minimum, Congress should provide rules that apply equally to all organizations engaged in commercial activity.

Grover C. Williams
Chairman of the Board
Trinity Engineering Testing Corp.
Austin, Texas

"The Cruelest Cut Of All"

Roger Thompson's interview with Harry Conaway ["Section 89: Beyond Repair," April] was just astonishing. Here is a guy who helped create a legislative fiasco, who then leaves the Treasury Department in the midst of the chaos to work as a consultant and pick up some of those 9 million "billable hours" created with the help of his handiwork.

The cruelest cut of all is his answer to the question "Now that you are advising business clients on Section 89 compliance, have your views about the law changed?"

Talk about the road to hell being paved with good intentions.

Vincent M. Marinello
Millburn, N.J.

This article exemplifies all that has gone wrong with the American system. A government bureaucrat writes regulations that no one understands, then leaves to sell his services as a consultant to those of us who will be penalized for not complying with them.

I presume that Mr. Conaway's consulting firm complies with Section 89 to the letter. The rest of us are merely bewildered.

Richard W. Morse
Wilmington, Del.

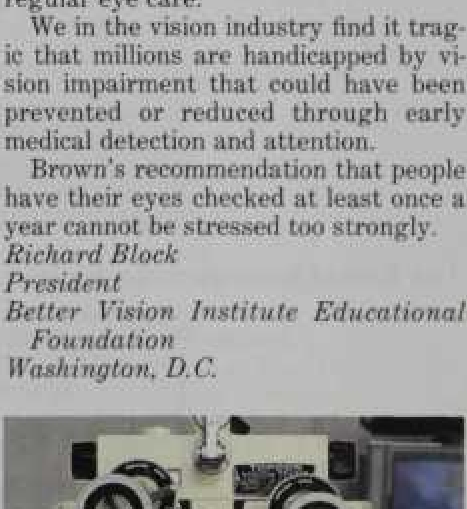
Set Your Sights On Good Eye Care

Norman Brown's article "The Sight Of Your Life" ["To Your Health," February] is an invaluable contribution to increasing the American public's awareness of the importance of proper, regular eye care.

We in the vision industry find it tragic that millions are handicapped by vision impairment that could have been prevented or reduced through early medical detection and attention.

Brown's recommendation that people have their eyes checked at least once a year cannot be stressed too strongly.

Richard Block
President
Better Vision Institute Educational Foundation
Washington, D.C.



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Send letters to Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

The Truth Of The Matter

Last summer in California the minimum wage was raised to $4.25 an hour. In the minds of those who backed the proposal, the increase was to provide higher wages to lower-income workers. What follows is a real-life result of this misguided policy.

I own a coffee-shop restaurant that for years had served breakfast, lunch, and dinner seven days a week. The dinner meal had always been marginal profit-wise, but I kept plugging away in an attempt to make it viable economically.

When faced with the prospect of having to pay higher wages, with no corresponding increase in productivity, I decided to stop serving dinner.

Thirty shifts a week—200 wage hours—disappeared. Two full-time and four part-time people became unemployed.

Also gone are my local purchases of advertising and food amounting to thousands of dollars a month.

Furthermore, at the new, higher wage, I am much more selective in my hiring and am less willing than before to use marginal workers.

Advocates of any increase in the federal minimum wage should consider the results of this live "experiment."

Don McLeod
Sacramento, Calif.

An Atypical Washington Story?

I am puzzled by one of the editorials in the March issue ["A Typical Washington Story With A Typical Washington Ending"].

You seem to be criticizing the approach of providing a benefit and then directly assessing the cost to the beneficiaries. To me, this seems to be desirable and not typical of congressional action.

The more usual action would be to provide a benefit and let someone else pay for it.

It may well be that an extension of Medicare to cover catastrophic illnesses was a good approach to this problem for the elderly. If there is a difficulty with it, it would be that it is not elective and therefore they get the insurance benefit, but they also pay the premium and have no choice in the matter.

Apart from that, it may be one of the better actions Congress has taken to solve a problem.

Theodore F. Frankenbach
Westfield, N.J.

Nation's Business

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Small-Business Update

By Donald C. Bacon

Changes Ahead For Section 89

The federal benefits law known as Section 89 is all but dead in its present form—a victim of its own complexities of compliance. The question now is what will replace it.

Two recent developments appear to make it certain that the law, one of the most complex and controversial to hit small business in many years, will be extensively revised:

- Treasury Secretary Nicholas F. Brady announced at the annual meeting of the U.S. Chamber of Commerce, which had spearheaded the business battle against Section 89, that implementation will be delayed to Oct. 1 while his department and Congress negotiate ways to make its requirements "less burdensome."
- Rep. Dan Rostenkowski, D-Ill., chairman of the Ways and Means Committee, introduced his own simplification bill. That was a major concession by the powerful chairman of the House committee with jurisdiction over the law.

Neither Brady nor Rostenkowski agreed to the business demand for repeal of Section 89, however, and that fight will continue even as the various key players work on simplification.

Section 89 of the tax-reform law passed in 1986 is designed to prevent discrimination against lower-paid employees in health-care and other benefits. Benefits considered discriminatory are subject to taxation.

Brady told the U.S. Chamber audience that the law imposes "unreasonable compliance burdens" and excessive costs.

The law was originally scheduled to take effect last Jan. 1, but the Internal Revenue Service postponed enforcement until July 1.

As a result of Brady's action, companies will not have to begin the complex tests until Oct. 1 at the earliest, and the promised simplification may be achieved by then.

Rostenkowski said his proposal "completely replaces the existing Section 89" with a streamlined law that could be satisfied with minimal effort by employers.

The new law would allow employers to meet nondiscrimination requirements if their health-care plans are offered to 90 percent of the rank and file and if they cost employees no more than $10 per week for individual coverage and $25 a week for family coverage.

But the debate over what must be done to reach a reasonable level of simplification is just beginning.

During hearings on Rostenkowski's bill, the U.S. Chamber and more than a dozen other business groups called for major changes.

Key business recommendations would exempt the smallest companies, generally defined as those with fewer than 10 employees, and would apply compliance tests to workers who put in more than 30 hours a week, as opposed to Rostenkowski's 25.

The business representatives also called for elimination of those parts of the law that discourage "cafeteria" plans that offer workers a choice of benefits.

PHOTO: T. MICHAEL KEZA

Treasury Secretary Nicholas F. Brady told the U.S. Chamber that implementation of Section 89 is being postponed while ways are sought to make it "less burdensome."

Lawmakers And Business Group Push Commonsense Budgeting

In an effort to gain greater control of federal spending, several lawmakers and the Coalition for Fiscal Restraint are pushing legislation to require a more businesslike approach to the annual budget process.

The Coalition for Fiscal Restraint is made up of Washington trade-group leaders and corporate representatives who are working to slow the growth of federal spending and prevent tax increases. The U.S. Chamber of Commerce is a member of the coalition.

The group's "commonsense" budget bill would require the administration and Congress to draft the annual budget the way most businesses and individuals do—by using the previous year's spending as a starting point.

The procedure now begins with the current-services budget. This includes last year's spending plus automatic growth for all programs due to inflation, demographic shifts, and previous commitments to spend money. Unfortunately, by assuming that spending on each item in the budget must increase, some lawmakers contend that spending below the current-services level is a budget cut.

Sen. Rudy Boschwitz, R-Minn., who introduced the measure, S. 447, in the

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Senate, said: "Each year we project an increase in all programs, only restrain the growth in a few areas, and then pat ourselves on the back for 'cutting' the federal budget. The truth is, every year we've let federal spending increase."

Rep. Bill Frenzel, R-Minn., has introduced a companion bill, H.R. 1613, in the House.

Under the proposed legislation, lawmakers still could recommend cost-of-living adjustments to entitlement programs or increases in defense spending for higher procurement costs. But members would have to justify the increases rather than rely on automatic increases from the formula for the current-services budget.

A Minimum-Wage Confrontation

The White House is notifying congressional backers of a $4.55 minimum wage that President Bush will not compromise by as much as one cent in his call for a level no higher than $4.25 an hour.

The issue is moving into place as the source of the first major confrontation between the new administration and the Democratic-controlled Congress.

While both the Senate and the House passed bills calling for $4.55, the votes fell short of the numbers needed to override a presidential veto.

Because the measures varied on provisions such as a training wage, it was necessary for the two houses to resolve the differences and agree on all aspects before a single bill could be sent to the president.

As Congress moved toward its final decision, President Bush reinforced his veto pledge. Democratic leaders on Capitol Hill had seen themselves in a no-lose situation—the president would be forced to accept the $4.55 or appear indifferent to the needs of lower-paid workers.

The White House, however, had its own no-lose strategy—the president would hold the wage down to what he considered a reasonable level or win public support by using the veto to reject what he considers a threat to the nation's economic health.

New Bill To Define Rights Of Workers In Union Dealings

Rep. Steve Bartlett, R-Texas, says he will introduce a sweeping labor-reform bill that would ensure the rights of individual workers in collective bargaining and other matters involving labor unions.

The lawmaker, addressing the Breakfast Bunch, a business-issues group organized by the U.S. Chamber of Commerce, indicated that one aim of his proposal is to put organized labor on the defensive as it prepares to press a broad pro-labor agenda in the Democratic-controlled Congress this year.

"If we play the offensive game, it won't be long before the other team on the field will be playing defense," Bartlett said.

Rep. Steve Bartlett, R-Texas, plans to introduce a labor-reform bill that he says would protect the rights of individual workers in labor-union matters.

PHOTO: NATION'S BUSINESS

Bartlett, a member of the House Education and Labor Committee, calls his proposal the Employee Rights Act of 1990. It would amend the National Labor Relations Act and the Fair Labor Standards Act.

The measure, as outlined by Bartlett, would require:

- Majority approval by secret ballot when workers are deciding whether to organize with union representation;
- Approval by secret ballot of decisions to strike whenever 30 percent of the workers favor such a voting procedure;
- Supplying of information by unions to members concerning contract negotiations and strikes.

The bill also would bar unions from spending a worker's dues for any purpose other than the collective-bargaining process unless the worker specifically authorized such spending. In addition, the measure would grant union members a unilateral right to resign.

Separately, Rep. William F. Goodling, R-Pa., ranking minority member of the House Education and Labor Committee, told the Association Insiders, a Chamber-based group, that Congress faces difficult battles over a host of pro-labor bills this year.

Goodling listed, among others, measures to require employers to give workers unpaid parental leave, and to expand hazard-notification requirements on employers. NB

This Month's NB TIPS

You may not need a master's degree to run a small business, but you do need a grasp of basic management and accounting principles.

Can you, for instance, calculate your firm's cash flow? Or can you compute an acid-test ratio?

Useful lessons in using those and a host of other financial-management tools for everyday business are packed in a readable new book, *The Small Business Financial Planner*, by Gregory R. Glau. The volume, published by John Wiley & Sons Inc., is available at bookstores for $29.95.

If you are looking for help in implementing a drug-abuse-prevention program for your employees, a good starting point is the publication *Drug Abuse in the Workplace: An Employer's Guide for Prevention.* The guide, published by the U.S. Chamber of Commerce, is available to members for $20 and to nonmembers for $33.

To order, write Publications Fulfillment (RKVL), 1615 H Street, N.W., Washington, D.C. 20062. Ask for publication 6972.

ENTREPRENEUR'S NOTEBOOK

On The Front Lines In The Trade War

By Stephen A. Rondel

In 1975 I started a manufacturing company in a horse stall in my barn. I did the soldering, assembling, and selling of voltage converters for foreign electrical outlets; my wife did the paperwork. With a degree in systems engineering, an M.B.A., and several years of business experience, I thought I had everything necessary to pursue the American Dream: a product that millions of travelers needed, a good education, a supportive spouse, and a lot of determination.

Ten years later, we had introduced a dozen new products for travel—I invented many of them—but had grown to only about $300,000 in sales. We had never made a profit. Hardly the American Dream. In fact, it was a nightmare. Neither my wife nor I had been able to take any salary for the decade; we were driven by the joy of creating products that filled needs. To raise the money to build inventory—and to make a living—I lectured on computers to major companies and wrote 12 books about computers.

We were caught in a vicious circle. Our sales had to grow if we were to cover our minimal overhead and start making profits. But we had to make profits before we could get bank financing—and we had to have bank financing to build the inventory that would permit growth in sales. I could get plenty of orders, but because I couldn't finance the inventory, I couldn't build enough products to fill the orders. Not a bank in town would finance even an order from the most creditworthy billion-dollar retailer.

As orders went unfilled, our customers turned to competitors, including some from the Far East. Although we kept getting further behind as our orders rose, our Asian competitors grew vigorously.

At first, like everyone else, I attributed their success to a labor-cost advantage.

But I finally came to realize that manufacturers in the Far East had a much greater advantage.

Their orders financed their inventory; ours didn't. Not a bank in the world would touch our orders, but our Asian competitors took their orders to the bank and got the critically timed cash that bought raw materials and labor.

I thought it must be their banking system that made this possible, along with some form of government support. But I was wrong. It wasn't their banks that were doing the principal financing for them—it was ours.

PHOTO: © RICH FRISHMAN

I could get plenty of orders, but because I couldn't finance the inventory, I couldn't build enough products to fill the orders.

This came about because the retailers that generated the orders were eliminating the banks' risks. The retailers were putting up collateral so that the banks on this side of the Pacific would issue letters of credit to the Far Eastern manufacturers (LCs are irrevocable bank guarantees that a manufacturer will be paid upon shipment of an order). The Far Eastern manufacturers could then use those LCs to obtain loans from banks on their side of the ocean. Those manufacturers' banks didn't do anything unusual; and their governments had very little to do with it.

The letter of credit is, in my judgment, the most serious offshore trade advantage.

American retailers rarely, if ever, give American factories domestic LCs with their orders. It has come to the point that you as a manufacturer try not even to ask for a domestic LC, because you know that the retailer will treat you as if you were inadequate.

The American manufacturer's only real alternatives are to go public or seek out a venture capitalist. That is, sell part of your business.

Unfortunately, for many American entrepreneurs, that is the beginning of the end. Going public is an extremely expensive process—it takes hundreds of thousands of dollars—and requires a year of the CEO's time, so it involves gambling the whole business. As for venture capitalists, too often they turn out to be "vulture capitalists," unsympathetic to anything but profits.

In many cases, the entrepreneur is forced out, the money men take over and try to make a logical success out of what was running on love, dedication, and creativity, and the whole thing flops.

I went public a few years ago, and I survived. Advanced Products and Technologies' sales, in the first year after the offering, grew 300 percent. I now own less than 15 percent of the company I founded, but I honestly have no regrets. It could have been a lot worse. I escaped disaster by inches, and I watched smarter guys go under.

Our line now includes such pace-setting products as a battery-powered razor whose sound guides you to the whiskers that need to be cut, a travel-size one-cup coffee maker, and a portable computer that translates spoken English into foreign languages.

But I still resent the Far Eastern manufacturer's advantage.

To be a real force, American entrepreneurs must be able to take orders from creditworthy customers straight to the bank, get 40 to 50 percent of the amount of the order, and start the business resources flowing.

We all must recognize that the American dream no longer exists where the trade war is fought. NB

Stephen A. Rondel is chairman and chief executive officer of Advanced Products and Technologies Inc., in Redmond, Wash.

Readers are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062.*

PEOPLE

Making It

This month's thriving entrepreneurs serve up California cuisine, Hollywood dreams, and package deals for other companies' products.

The Taste Of Mendocino

The village of Mendocino perches on the California coast about 150 miles north of San Francisco. Its 1,000 residents like to think of Mendocino as a transplanted New England town—it was settled by 19th-century sea captains—and Hollywood often uses it as such (it doubles as "Cabot Cove" for TV's "Murder, She Wrote"). But, charming as it is, Mendocino is a little too shaggy and eccentric to be confused with a hamlet in Maine; it's doubtful

PHOTOS: © GEORGE OLSON

...ming but isolated village of ...no is home to "one of the best-...taurants in California," ...t Fox's Cafe Beaujolais.

eight months of the year, and closes altogether in January and February.

The food is classic American, or more precisely, classic Californian: fresh ingredients, handled with care, and often combined in surprising but pleasing ways. Fox gives even the most basic-sounding breakfast and lunch items—French toast, smoked-salmon omelets, black-bean chili—a complexity they never have in ordinary restaurants. But

aristocratic food.

Many a successful big-city restaurant vibrates with anxiety that the place down the street will beat it to some food trend. By contrast, Cafe Beaujolais—whose real competitors are all hours away—makes diners believe that it offers nothing for the sake of fashion.

Her restaurant is in thrall to no particular cuisine, Margaret Fox said in

...ujolais (Ten Speed Press), a ...k she wrote with John Bear: "I ...ically the only unifying theme ...' being immensely satisfying." ...f the dinner menu lists an ap...ay, that sounds up-to-the-min...haps a fire-roasted pasilla pep...uffed with a mixture of ...Jack, Asiago, and homemade ...ne cheeses, and served with a ...ginger-cilantro vinaigrette—...is there only because someone ...chen thinks it is delicious.

...Beaujolais thus combines so...on and comfort, and in that it ...he warm, robust woman who ...Fox, a native of the Los Ange...grew up in a household filled with thousands of cookbooks. In 1975, she turned away from a budding career as a psychologist and moved to Mendocino, working at first as a baker in a hotel restaurant. In 1977, she and three partners bought a restaurant housed in a 1910-vintage frame building on Ukiah Street.

"I soon became convinced," she has written, "that I was the only partner who clearly saw what the responsibil-

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kers that need to be cut, a travel-size one-cup coffee maker, and a portable computer that translates spoken English into foreign languages.

But I still resent the Far Eastern manufacturer's advantage.

To be a real force, American entrepreneurs must be able to take orders from creditworthy customers straight to the bank, get 40 to 50 percent of the amount of the order, and start the business resources flowing.

We all must recognize that the American dream no longer exists where the trade war is fought. NB

Stephen A. Rondel is chairman and chief executive officer of Advanced Products and Technologies Inc., in Redmond, Wash.

Readers are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062.*

PEOPLE

Making It

This month's thriving entrepreneurs serve up California cuisine, Hollywood dreams, and package deals for other companies' products.

The Taste Of Mendocino

The village of Mendocino perches on the California coast about 150 miles north of San Francisco. Its 1,000 residents like to think of Mendocino as a transplanted New England town—it was settled by 19th-century sea captains—and Hollywood often uses it as such (it doubles as "Cabot Cove" for TV's "Murder, She Wrote"). But, charming as it is, Mendocino is a little too shaggy and eccentric to be confused with a hamlet in Maine; it's doubtful that any Maine town has a truck on the streets that advertises "donkey dung" for sale.

The residents say that the trip from San Francisco takes 3½ hours, but for people not familiar with the twisting mountain roads that lead to Mendocino, four hours may be a more realistic estimate. You would not expect people to drive to Mendocino from San Francisco for lunch—much less breakfast.

But every year, thousands do. They may come to enjoy Mendocino's other attractions, too, but mostly they come because of Margaret Fox.

Fox, 37, is the chef-owner of Cafe Beaujolais, which *Gourmet* magazine has described as "one of the best-loved restaurants in California." Fox has built a famous and successful restaurant—she serves more than 60,000 meals a year—in a highly improbable location, with a wood-floored dining room that seats only 38 (plus some outdoor seating when the weather permits).

Moreover, Cafe Beaujolais is, in Fox's words, "basically a breakfast restaurant that also does lunches"; it serves dinner only four nights a week, eight months of the year, and closes altogether in January and February.

The food is classic American, or more precisely, classic Californian: fresh ingredients, handled with care, and often combined in surprising but pleasing ways. Fox gives even the most basic-sounding breakfast and lunch items—French toast, smoked-salmon omelets, black-bean chili—a complexity they never have in ordinary restaurants. But

PHOTOS: © GEORGE OLSON

The charming but isolated village of Mendocino is home to "one of the best-loved restaurants in California," Margaret Fox's Cafe Beaujolais.

thanks in part to its out-of-the-way location, Cafe Beaujolais differs subtly from other restaurants serving such aristocratic food.

Many a successful big-city restaurant vibrates with anxiety that the place down the street will beat it to some food trend. By contrast, Cafe Beaujolais—whose real competitors are all hours away—makes diners believe that it offers nothing for the sake of fashion.

Her restaurant is in thrall to no particular cuisine, Margaret Fox said in *Cafe Beaujolais* (Ten Speed Press), a 1984 book she wrote with John Bear: "I think basically the only unifying theme is that of being immensely satisfying." And so, if the dinner menu lists an appetizer, say, that sounds up-to-the-minute—perhaps a fire-roasted pasilla pepper, stuffed with a mixture of Monterey Jack, Asiago, and homemade mascarpone cheeses, and served with a tomato ginger-cilantro vinaigrette—that item is there only because someone in the kitchen thinks it is delicious.

Cafe Beaujolais thus combines sophistication and comfort, and in that it reflects the warm, robust woman who owns it. Fox, a native of the Los Angeles area, grew up in a household filled with thousands of cookbooks. In 1975, she turned away from a budding career as a psychologist and moved to Mendocino, working at first as a baker in a hotel restaurant. In 1977, she and three partners bought a restaurant housed in a 1910-vintage frame building on Ukiah Street.

"I soon became convinced," she has written, "that I was the only partner who clearly saw what the responsibil-

The Taste Of Mendocino

ities and demands of being in this business were." Within two years, she had bought out her partners and was deep into a long struggle to survive.

"If I'd been smart enough to know what I should have known, I never would have gone ahead with this," she says now. "I was young, and I was really stupid. But I'm very achievement-oriented, so even when things were absolutely the worst, and I came close to throwing in the towel, I knew that at some point in the future I just couldn't look back on that experience and think, 'Yes, I failed.'"

For the first few years, Fox says, she made almost no money, and she had to turn to her family for loans. She was constantly tempted to quit. But, she says, "I always had a feeling that quality will sell. I had a lot of confidence that it was going to work out. I've always been pretty strong-willed, and I've always been pretty right."

Finally, in the early '80s, the tide turned, as Cafe Beaujolais started drawing rave reviews; *California* magazine called it "the best place in the state for breakfast," for instance, and the superlatives have been rolling in ever since.

Cafe Beaujolais now has about 40 employees in the busy summer months. Although Fox no longer spends as much time at the stove as she did in the early days, she is still at the restaurant, and usually in the kitchen, 55 or 60 hours a week. She remarks: "People say to me, 'What does it feel like to be so famous?' and I say, 'I'll tell you when my feet stop hurting.'"

A few years ago, Fox, who describes herself as "very entrepreneurial," considered expanding to a second location in the Napa Valley or San Francisco, but she realized that expanding in that way could dilute the kind of success she has enjoyed in Mendocino. She has, instead, opened a wholesale operation called the Cafe Beaujolais Bakery, in nearby Fort Bragg. The bakery, a limited partnership, sells panforte, sausages, and granola by mail order.

Fox has her hands full keeping Cafe Beaujolais performing at its usual exalted level. "We have to live up to our reputation," she says. "And it has to be lived up to with every diner, every day, every hour we are open." Her restaurant is, after all, a place where people will drive three or four hours to have lunch. And, as Fox says, if someone drives that far for lunch, "it had better be good."

—Michael Barrier

Wait! Is that a big telephone, or are those teeny-weeny guys? Relax! The phone is a giant prop, and Jonathan Katz, Tom Field, and Dave Park—partners in a Hollywood company called Cinnabar—built it for a Federal Express TV commercial.

PHOTO: © MARK RICHARDS

Lights ! Camera ! Hammer And Nails !

If you watch television at all, you have seen their work. Sometimes in the programs—as when Pee-wee Herman prances through the fantastic architecture of his "playhouse"—but more often in the commercials. Take, for example, the commercial in which a large tree crashes onto the back of a Nissan pickup, and the undamaged truck drives away with it—they made that happen. For another commercial, they built a swamp and filled it with real alligators.

Jonathan Katz, Thomas R. Field, and David Park—partners in a Hollywood company called Cinnabar—are not producers, directors, actors, or anything of that kind. What they do instead is transform such people's fancies into fact, by building sets and creating special effects.

Katz, 41, Cinnabar's president and chief executive officer, got into the business not because he was a movie buff but because "I always had a lot of mechanical and three-dimensional aptitude—building things, working on cars, all that kind of stuff." He entered set construction in the early '80s, after a career that included stints as a Porsche mechanic and as an aide to California Gov. Edmund G. Brown Jr. He worked with Field, 39, and Park, 36, at another set-construction company before they formed Cinnabar in 1982.

Constructing sets for a feature film can take many weeks, but in television, sets often must be designed and built in two or three days. And, Katz says, when Cinnabar gets an order, it rarely includes detailed instructions of any kind—"sometimes you get the proverbial sketch on a napkin." Park adds: "If you get that much, you're lucky."

His business, Katz says, is one "that rewards the ability to make correct decisions quickly," but to make those decisions, he must extract information from the people ordering the sets or effects. "When you sit down with somebody," he says, "a lot of times they have a vision in their minds, and it's

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Emery Worldwide's renewed emphasis on

only by your asking the right questions that you elicit the technical parameters, which the director or writer or ad agency isn't necessarily thinking about."

The questions Katz must ask can seem startlingly basic: "You ask, 'How big is it?' 'Well, pretty big, but not too big.' You finally get that reduced to 16 feet by 8 feet, by asking the appropriate questions. Does it move? What color? Do you see it as something shiny or something flat?'"

In recent years, Cinnabar has striven increasingly to be what Katz calls "a service business, not a company that builds stuff." It has pulled together more and more services—sign painting, neon, special effects—that producers once had to get from other firms.

Cinnabar's sales rose to $7 million last year, and the company—which usually employs 65 to 75 people—has outgrown its rented space in three Hollywood locations; the three workshops will be consolidated at one location around the middle of June. But despite its success, Katz says, Cinnabar faces "extreme competitive pressures," at a time when much film and TV production is shifting away from Los Angeles to places such as Florida and Canada.

"I've started talking to our work force about the fact that productivity and profitability in our company are very important," Katz says, "because this work can be going away—and not down the street, but somewhere else. If we're going to relocate to Arkansas, and they want to come, that's fine, but maybe they should be concerned about it."

—Michael Barrier

PHOTO: © BRUCE CRIPPEN

Mort Libby, seen here with some of the product packaging designed by his Cincinnati-based firm, has a challenging assignment: He must create packages that make consumer goods look like others in the same category—but those packages also have to stand out from the crowd.

A Neat Little Package

In 1983, H. Morton (Mort) Libby, then 46, learned by reading a newspaper that the advertising agency where he had worked for eight years had given up its biggest account, Procter & Gamble.

Libby managed CYB, a Young & Rubicam subsidiary that specialized in package design. Its offices were next door to Procter & Gamble's Cincinnati headquarters; Procter & Gamble accounted for almost half of CYB's annual revenues of $500,000. But Young & Rubicam was concerned with much larger figures: It had decided to pass up $60 million worth of Procter & Gamble advertising billings for a $120 million contract with Colgate Palmolive, Procter & Gamble's archrival.

When he learned of the switch, "I was shocked," Libby recalls. "But after my heart started beating again, I knew what we would do. I didn't know what it would entail, but I knew where we would go."

After checking with his contacts at Procter & Gamble, and learning from them that he would still be welcome there, Libby and two colleagues—Raymond J. Perszyk, then 39, and Jerome C. Kathman, then 31—and two other investors opened negotiations with Young & Rubicam. They bought CYB for $200,000 and changed its name to Libby Perszyk Kathman; Libby became president.

For Libby, who had three children in grade school at the time, it meant putting his life's savings on the line. For his partners, it meant mortgaging their homes and borrowing from friends.

Their gamble has paid off. LPK's sales have grown from $500,000 in 1983 to $3.8 million in 1988. The company's crowded, bustling offices now occupy the entire third floor of a downtown Cincinnati building. LPK not only retained Procter & Gamble and all of CYB's other accounts, such as Kenner toys, Kroger supermarkets, and Totes rainwear, but also added another dozen or so, including Coors beer, Scotts lawn-care products, and Senco tools.

LPK has been recognized by Arthur Young, the nationwide accounting firm, as the fastest-growing small business in Cincinnati, and Libby sees the firm doubling in size in the next few years. But, he says, "it's crucial that we do so without compromising our package design."

Libby, a graduate of the Rhode Island School of Design, explains that packages must be recognizable as part of a product category, but different enough to stand out. One of LPK's early successes, a carton of 24 individual coffee creamers under Kraft's Sealtest brand, illustrates how that balance is struck. The carton is similar in shape to those for other products in the dairy case, but LPK used reds and browns to differentiate the Sealtest package from competitors' cartons. It also used a photograph showing the cream pouring into a cup of piping-hot coffee. The Sealtest name, the number 24, and the word "singles" are clearly visible on the package.

Last September, LPK bought a controlling interest in Willoughby, Robinson & Knauss, a 4-year-old, five-person advertising agency in Kansas City, Mo., with annual billings of about $500,000. "They're one or two clients away from being profitable," Libby says. The acquisition will provide Willoughby, Robinson & Knauss with management expertise and cash, Libby says, and it will help LPK even out the peaks and valleys in revenues from its core business.

Libby finds managing his own business quite different from managing a subsidiary of a large company, but he says his experience with Young & Rubicam has served him well. "They taught me how to make a business plan," he says, "and I still make one every year."

—Bill Stack

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COVER STORY

EC92

By Roger Thompson

Like many other small U.S. manufacturers, Mentor O&O Inc. struggles mightily to build a market in Europe.

But just because its diagnostic and surgical equipment used in eye care meets rigorous U.S. standards doesn't guarantee Mentor smooth sailing into European countries.

On the contrary, says Richard W. Young, chief executive officer of the firm in Norwell, Mass., a Boston suburb. Mentor spends a lot of money modifying its equipment to meet design specifications that change from country to country on the continent.

The Germans, for example, are particularly hard to please, says Young. The alarm bell on a Mentor testing device sold in this country has an on-off switch. The Germans refuse to approve the machine until the switch is removed, and they also dictate just how loud the alarm bell must sound.

Such requirements are typical of the trade barriers that Young hopes will fall as the 12 nations that make up the European Community move toward establishing a single internal market by the end of 1992.

The countries that are participating in EC92 have embarked on a mammoth adventure in deregulation that aims to sweep away obstacles, some of them centuries old, to the free movement of goods, services, capital, and people within the European Community. Barriers that have sheltered inefficient home markets will be dismantled in favor of a unified market of 323 million consumers—half again larger than the U.S. market. This single market will produce $4.5 trillion in goods and services, putting it just behind the U.S. and far ahead of Japan in economic might.

Opportunities will abound for U.S. companies—large and small—in a unified European market. On the upper

Researcher Janet Beales contributed to this cover story.

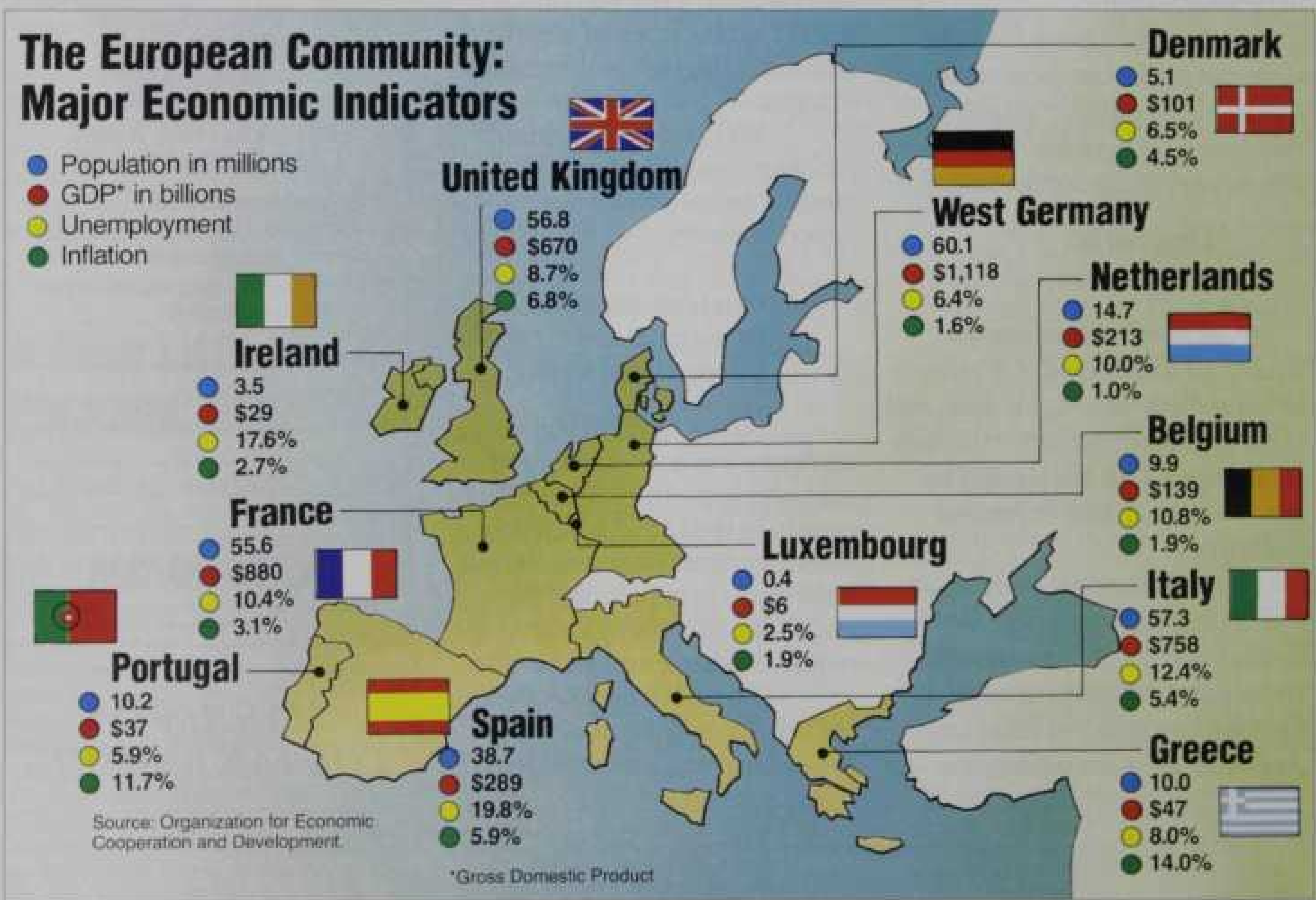


CHART: SAM WARD

A mammoth effort to sweep away obstacles to the free movement of goods, services, and capital within the 12-nation European Community will unify a market half again as large as America's, and it could create a host of opportunities for U.S. companies.

end of that range, U.S. multinationals are particularly well positioned to profit from the single market. While their European competitors traditionally focused heavily on well-protected home markets, the multinationals developed strategies for Europe as a whole.

In fact, some Europeans fear that the Americans may have an upper hand in profiting from a unified market, says Eric Friberg, managing director of McKinsey & Co., an international consulting firm. He is based in Brussels and is president of the American Chamber of Commerce in Belgium.

Small and midsized U.S. exporters are not as well positioned to cash in on EC92 changes as are the multinationals. Nor are they as well informed. Consequently, they are more anxious about the program's potential negative impact.

But experts foresee new opportunities for small and midsized exporters because they will be selling into a single market with a generally uniform set of norms, standards, and testing and certification procedures. They will no longer face a dozen different sets of national requirements or border controls between countries within the group of 12. An invigorated European economy also will create more demand for U.S. goods and services.

Even U.S. companies that do not currently export to Europe have shown a sharply increased level of interest in EC92 in recent months, says Charles Valentine, director of international trade advisory services for the accounting and consulting firm Arthur Young & Co. in Washington.

Santhanam Shekar, European director for the consulting firm Arthur D. Little in San Francisco, says the process of change in Europe has opened "a large window of opportunity for American business in virtually all industries." While much uncertainty remains about the outcome, U.S. firms shouldn't wait to start planning to take advantage of these changes, Shekar advises.

Business managers should begin now to evaluate their four basic options:

- Broadening distribution networks;
- Developing joint ventures with European companies;
- Acquiring or merging with European companies;
- Investing in European manufacturing capacity.

U.S. enterprises seeking to benefit from EC92 should also keep up-to-date on the flow of decisions being made in preparation for the major changes, the experts say. Working through their trade associations and other organizations, they not only can remain informed but also can be in a position to exert political pressure on the American government to support those positions that achieve the greatest advantages for U.S. enterprises as EC92 evolves.

Such pressures might help guard against possible slippage between theory and practice in a unified market. Richard Young of Mentor, for example, is particularly concerned about new technical standards that would affect his company's chances to compete within the EC. "I don't think all the nontariff barriers to trade with the EC countries will be eliminated by the 1992 process, but they'll be reduced," he

Test Your EC92 IQ

1. Which one of the following nations is not a member of the EC?
   a) France
   b) West Germany
   c) Sweden
   d) Italy

2. What will be the market size of a unified Europe?
   a) 125 million consumers
   b) 257 million consumers
   c) 323 million consumers
   d) 506 million consumers

3. With which of the following does the U.S. have the greatest bilateral trade?
   a) Canada
   b) European Community
   c) Japan
   d) Latin America

4. In what year was the European Community formed?
   a) 1945
   b) 1958
   c) 1975
   d) 1982

5. Which one of the following is *not* an original intention of EC 1992?
   a) Free movement of capital
   b) Removal of frontier barriers
   c) Integration of U.S. and European markets
   d) Harmonization of technical standards

6. Where are the principal EC institutions based?
   a) Paris
   b) Brussels
   c) Rome
   d) Vienna

7. What is the combined output of goods and services of the 12 member nations of the European Community?
   a) $2.5 trillion
   b) $3.3 trillion
   c) $4.5 trillion
   d) $5.5 trillion

Answers:
1-c; 2-c; 3-b; 4-b; 5-c; 6-b; 7-c

COVER STORY

EC92

says. "I just hope they don't adopt the most difficult standards as the new Community-wide standards."

Young is far from alone in his concern that new barriers might be erected around the external borders of the newly unified market even as old internal ones fall. Such a "Fortress Europe" could leave American business on the outside looking in.

Technical standards represent "one of the fundamental issues now in terms of whether some relatively large fences are built around certain sectors" of European business, says William T. Archey, vice president of the U.S. Chamber of Commerce and chief of its International Division. (For Archey's analysis, see Page 24.)

But standards make up just one area where tensions between the U.S. and its European trading partners have risen in recent months as the EC92 process goes forward. No less significant are the issues involving local-content and country-of-origin requirements, government procurement restrictions, and reciprocity for financial services.

"My fear is that, as European governments seek to balance political interests among the 12 member states, the legitimate interests of outsiders will be the first to be traded off," says Lionel H. Olmer, former undersecretary of commerce for international trade. Olmer, now a Washington lawyer and vice chairman of the U.S. Chamber committee on EC92, says that "Fortress Europe may not be a realistic outcome, but selected protectionism will be defended as necessary" to phasing in a more open market.

For their part, European Community officials strenuously deny that they are building a new Europe-for-Europeans. Last October, the EC Commission, the Community's executive branch, issued a position paper to answer critics who say EC92 is destined for protectionism. (For more on the EC's governing bodies, see the box on Page 26.) The commission stated that "1992 Europe will not be a Fortress Europe but a Partnership Europe."

Sir Roy Denman, EC ambassador in Washington, steadfastly agrees. "There is not going to be a Fortress Europe," he says. "I think it's a silly phrase."

But such assurances do little to alleviate the anxiety about Fortress Europe felt on Capitol Hill. "I think you can take it as a fundamental rule that

PHOTO: © RICHARD HOWARD

Richard W. Young, CEO of Mentor O&O Inc., hopes EC92 will open Europe to his company's products, such as its high-tech video equipment for testing vision.

when people change the rules of the game, they usually are not doing it to make it easier for you," says Rep. Sam Gejdenson, D-Conn., chairman of the International Economic Policy and Trade Subcommittee of the House Foreign Affairs Committee. His subcommittee has held a series of hearings on the impact of EC92 on U.S. business.

Senate Finance Committee Chairman Lloyd Bentsen, D-Texas, recently warned that import restrictions being enacted by the Community threaten free trade and could provoke U.S. countermeasures. Bentsen's committee oversees trade legislation.

The Bush administration is more reserved in its comments, but it is concerned nonetheless. "While I do not foresee a Fortress Europe, it would be naive to believe that there will not be a few 'strongholds' here and there," says Commerce Secretary Robert Mosbacher. He pledges that the administration will "forcefully advocate vital U.S. business interests" and work to tear down barriers to free trade wherever they spring up.

To that end, more than 30 federal agencies are monitoring EC developments through an interagency study group headed by U.S. Trade Representative Carla A. Hills. In addition, several agencies, led by the Commerce Department, have set up special services for U.S. businesses seeking information about the unified European market. (For a list of services, see Page 22.)

Because small U.S. exporting companies such as Mentor O&O don't generally have a European base of operations from which to track EC92 developments, Richard Young maintains that the federal government must be their advocate at the bargaining table. This is a position repeatedly taken by small-business representatives appearing before Gejdenson's subcommittee.

The goals of EC92 are not new. The Treaty of Rome, signed in 1958 by France, West Germany, Italy, Luxembourg, the Netherlands, and Belgium, set a clear mission to abolish all tariffs and quotas among the six original European Community members within 12 years. Even as tariffs and quotas faded, governments established new nontariff barriers, and economic unity proved elusive.

Over the years, taxes, elaborate technical standards, and "buy-national" government procurement policies cropped up to insulate home markets from competition—even from other EC members. By the early 1980s, inflation, high unemployment, and reduced economic growth had combined to produce a pervasive economic stagnation and pessimism dubbed "Eurosclerosis."

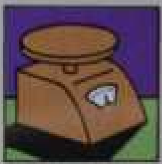
Midway through the decade, it became clear that the Community had to do something drastic or forever slip behind the U.S. and Japan in world markets. Spurred by the fear of becoming a second-rate economic bloc, the EC Commission in 1985 proposed that the Council of Ministers, which enacts laws, adopt some 300 proposals to eliminate barriers to a unified market by the end of 1992. (See Page 21 for a list of specific changes.)

The Council of Ministers moved boldly to incorporate the proposals into a history-making piece of legislation called the Single Europe Act, which took effect in July 1987.

To speed the work of the EC govern-

1992 At A Glance

The European Community has adopted 107 market-unifying proposals and is considering 172 others. This U.S. Department of Commerce list shows goods and services affected by the proposals.



Standards, testing, certification

Harmonization of standards for:
Simple pressure vessels
Toys
Automobiles, trucks, and motorcycles, and their emissions
Telecommunications
Construction products
Personal-protection equipment
Machine safety
Measuring instruments
Medical devices
Gas appliances
Agricultural & forestry tractors
Cosmetics
Quick-frozen foods
Flavorings & food preservatives
Food emulsifiers & food additives
Extraction solvents
Infant formula
Jams & fruit juices
Modified starches
Food inspection
Definition of spirited beverages & aromatized wines
Coffee extracts & chicory extracts
Materials & articles in contact with food
Tower cranes (noise)
Household appliances (noise)
Tire-pressure gauges
Hydraulic diggers (noise)
Detergents
Liquid fertilizers & secondary fertilizers
Lawn mowers (noise)
Medicinal products & medical specialties
Radio interferences
Earth-moving equipment
Lifting and loading equipment

Harmonization of laws regulating company behavior

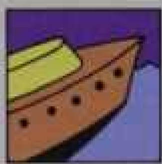
Mergers & acquisitions
Trademarks & copyrights
Cross-border mergers
Accounting operations across borders
Bankruptcy
Protection of computer programs
Transaction taxes
Company law

Harmonization of regulations for the health industry (including marketing)

Medical specialties
Pharmaceuticals
Veterinary medicinal products
High-technology medicines
Implantable electromedical devices
Single-use devices (disposable)
In-vitro diagnostics

Changes in government procurement regulations

Coordination of procedure on the award of public works & supply contracts
Extension of EC law to telecommunications, utilities, transport
Services



Harmonization of regulation of services

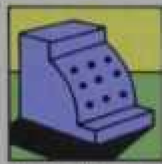
Banking & mutual funds
Broadcasting
Tourism
Road passenger transport & railways
Information services
Life & nonlife insurance
Securities
Maritime transport & air transport
Electronic payment cards

Liberalization of capital movements

Long-term capital, stocks
Short-term capital

New rules for harmonizing packing, labeling, and processing requirements

Ingredients for food & beverages
Irradiation
Extraction solvents
Nutritional labeling
Classification, packaging, labeling of dangerous preparations
Food labeling

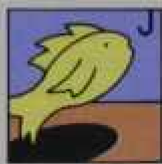


Consumer-protection regulations

Misleading definitions of products
Indication of prices

Harmonization of taxation

Value-added taxes
Excise taxes on alcohol, tobacco

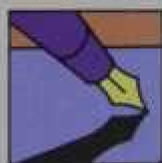


Harmonization of veterinary & phytosanitary controls

Harmonization of an extensive list of rules covering items such as:
Antibiotic residues
Bovine & porcine animals and meat
Plant health
Fish & fish products
Live poultry, poultry meat, and hatching eggs
Pesticide residues in fruit & vegetables

Elimination and simplification of national transit documents and procedures for intra-EC trade

Introduction of the Single Administrative Document (SAD)
Abolition of customs presentation charges
Elimination of customs formalities & the introduction of common border posts



Harmonization of rules pertaining to the free movement of labor and the professions within the EC

Mutual recognition of higher educational diplomas
Comparability of vocational training qualifications
Specific training in general medical practice
Training of engineers
Activities in the field of pharmacy
Activities related to commercial agents
Income-taxation provisions
Elimination of burdensome requirements related to residence permits

ment in Brussels, the Council of Ministers also amended EC law to permit, for the first time, qualified majority rule rather than unanimous approval of laws, called directives. Without majority rule, any EC member state, numbering 12 since 1986, could veto laws designed to bring about economic unity. The countries that joined since 1958 are Denmark, Greece, Ireland, Portugal, Spain, and the United Kingdom. Unanimity, however, still is required in certain sensitive areas, such as taxation and monetary-system reform.

Work on implementing EC92 goals started slowly, but by late last year the process had become the principal topic of discussion in capitals and boardrooms across Europe. EC92 finally had gathered the "critical mass" needed to attract and hold public attention.

Thus far, 107 proposals have been adopted, and 122 are in various stages of the decision-making process. Fifty of the most difficult issues remain in the discussion phase. The initial 300 proposals were trimmed to 279 to consolidate some issues and sidestep others considered too sensitive for Community action.

Even if the EC government misses the Dec. 31, 1992, deadline for enactment of all 279 proposals, the unification process will probably be irreversible. It also is clear that 1992 is just the beginning, not the end, of European economic unification. Controversial goals, such as a single European currency and a central European bank, are unlikely to come about for years—if ever.

Over the next decade, however, removal of internal trade barriers is expected to revive a moribund EC economy. A recent Commission study projects that 1992 market reforms eventually would increase the EC's annual output of goods and services 5 percent, create 2 million to 5 million jobs, and cut consumer prices 6 percent as producers take advantage of new economies of scale and more efficient distribution networks.

For the short term, however, the study advises EC countries to expect some unpleasant side effects from 1992 changes, as business consolidations and restructuring shake out thousands of jobs.

PHOTO: ©ROBERT HOLMGREN

Tom Coulter, president of Coulter Steel & Forge Co., tries to keep up with European market changes that will boost sales of his products.

Your Information Channels On EC92

If you are confused and a bit overwhelmed by the complexities of the 1992 agenda in Europe, you are not alone. A recent survey by a leading consulting firm showed that most U.S. companies already doing business in Europe have not made plans to cope with the changes being made by the EC92 process.

Fortunately, keeping up with EC92 developments is not difficult for small and midsized U.S. companies. In addition to the U.S. Chamber of Commerce and American chambers of commerce abroad, one of the best sources of information is the U.S. Department of Commerce.

The Commerce Department has established an EC92 information service that provides background facts on the European Community, copies of proposed and approved laws, and assistance with specific problems. Write to Single Internal Market: 1992 Information Service, Office of European Community Affairs, U.S. Department of Commerce, Room 3036, 14th St. and Constitution Ave., N.W., Washington, D.C. 20230. Or call: (202) 377-5276.

Industry experts at the Commerce Department can answer your EC92 questions in a variety of areas. Among them are textiles and apparel, service industries, information technology, chemicals, construction-industry products, consumer goods, and industrial machinery.

Government Sources

A number of federal agencies, led by the U.S. Trade Representative's office, have formed a special committee to deal with EC issues. The committee has assigned agency specialists to answer questions in the following areas:

Standards Development, Testing, And Certification: The Department of Commerce; Charles Ludolph; (202) 377-5276.

Health And Environmental Regulation Aspects Of 1992: Food and Drug Administration; William Bartley; (202) 443-5470.

Services: Department of Commerce; Fred Elliott; (202) 377-4734.

Social Dimension Of 1992: Department of Labor; Betsy White; (202) 523-6096.

Agriculture: Department of Agriculture; Rick Helm; (202) 382-1322.

Rules Of Origin: U.S. Trade Representative; Wendy Silberman; (202) 395-3063.

Investment Issues (Local Content): Treasury Department; Margaret Fowler; (202) 343-9150.

EC Treaty Obligations: Department of State; Ted Borek; (202) 647-5242.

Third-Country Relations: Department of State; Donald McConville; (202) 647-2320.

For American companies, "the unification of the 12 member states represents a unique opportunity to develop unparalleled economies of scale in the production of goods and the provision of services for what would be the largest trading bloc in the world," says Olmer, the former Commerce Department official.

In fact, business between the U.S. and the EC already is booming. The EC buys one-fourth of American exports and accounts for two-fifths of American external direct investment. "We are your best customer," says Denman, the EC ambassador in Washington. And the EC Commission's U.S.-based magazine, *Europe*, has noted that "many people in the EC are afraid that the main beneficiaries of the internal market could well prove to be the Japanese and American companies operating in Europe."

Most observers agree that the threat of protectionism is aimed more at the Japanese, who could flood Europe with Asian imports, than at the Americans, whose subsidiaries often are more "European" than the European-based competition. The danger is that barriers aimed at the Japanese will block U.S. trade as well. The greatest concerns about protectionist trade policies are focused on four key areas: local content and rules of origin; technical standards; reciprocity; and government procurement.

PHOTO: © BRUCE CRABB—G PHOTOGRAPHIC

Gerald Greenwald, vice chairman of the Chrylser Corp., says EC92 will be a boon to U.S. companies "if Europe keeps its external border open."

Local Content And Rules Of Origin. EC countries currently have a variety of local-content laws that require foreign-owned firms to buy fixed percentages of their production supplies from domestic firms. Nissan, for example, recently agreed to satisfy an 80-percent local-content standard at its auto plant in Great Britain. The EC Commission is contemplating local-content rules that could cause problems for U.S. manufacturers in a variety of sectors.

The Community already has modified its anti-dumping laws to crack down on "screwdriver" assembly plants—those that assemble finished products locally from imported parts. The screwdriver law requires at least 40 percent local content to avoid stiff anti-dumping tariffs imposed on parts imported at prices below actual production costs.

The law was aimed at plants controlled by Japanese firms. But it will harm some U.S. producers whose parts are purchased by the Japanese for export to Europe. In some cases, the Japanese will now "design out" American-made parts in favor of parts made in Europe.

A new approach also has been adopted for defining rules of origin for products manufactured in two or more countries. A product's country of origin is crucial in determining how it will be treated for customs purposes.

In February, the Community abandoned a longstanding rule based on where a product's "last substantial transformation" took place. Now, for semiconductors and some other products, the Community essentially re-

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Quantitative Restrictions: U.S. Trade Representative; Andrew Stoler; (202) 395-3320.

Private Sector

A major source of EC92 information in the private sector is the U.S. Chamber of Commerce. The International Division is preparing for business owners and managers a practical business guide to EC92 and an informative 30-minute video presentation. Both are expected to be ready this summer. For information, call (202) 463-5460, or write to the U.S. Chamber of Commerce, International Division, 1615 H Street, N.W., Washington, D.C. 20062.

American chambers of commerce based in Europe also are offering U.S. companies a wide variety of 1992 business-opportunity information on their host countries. For example, the AmCham in London has produced an EC92 video and resource booklet. Call or write the U.S. Chamber in Washington for addresses of the 10 AmChams in the European Community countries.

The American Chamber of Commerce in Belgium is an authoritative source of up-to-date information on EC government and the progress of proposed EC laws. The Belgium AmCham has formed an EC Committee that is recognized by the EC as the representative of American companies based in Europe.

The committee publishes three useful guides to EC institutions and their activities.

The *EC Information Handbook*, at $38, provides an overview of EC governmental structure, describes the legislative process, and provides background information on numerous European groups involved in shaping the outcome of economic unification.

The *Business Guide to EC Initiatives*, $25, highlights for U.S. companies the content, prospects, and implications of 76 proposed EC laws. The publication is updated semiannually.

Countdown 1992, published quarterly for $50 an issue, is a reference guide to the status of approximately 400 pieces of EC legislation. All three publications are available by mail. Write to the American Chamber of Commerce in Belgium at Avenue des Arts 50, Boite 5, B-1040 Brussels, Belgium. To order by phone, call 011-32-2-513-68-92.

Businesses that already are exporting to European markets can also use their overseas distribution channels to monitor EC92, says Phil Hinson, director of West European Affairs at the U.S. Chamber of Commerce.

Besides functioning as an outlet for your product or service, your distributor—who should have a vested interest in increasing your sales—can serve as your ears and eyes on the EC scene.

Once you obtain the information you need, call on your trade association to help make your interests known in Brussels, where the EC Commission is based, and in Strasbourg, where the EC Parliament meets.

Many associations just now are forming EC study committees and seeking ways to influence the EC legislative process.

COVER STORY

EC92

quires that production occur within the EC to avoid tariffs. For example, under new rules of origin for semiconductors, only computer chips finished in Europe will qualify for free movement within the Community. U.S. semiconductor manufacturers have cried foul, but to no avail.

"The intent of these related developments is unmistakable: to force non-European manufacturers, primarily the Japanese, to increase investments in Europe," says Charles S. Levy, a Washington attorney who specializes in EC law. While these changes are aimed at the Japanese, Levy warns, they will adversely affect U.S. business. Foreign producers that export products from the U.S. may feel compelled to shift capital investments to Europe to meet new requirements on local content and rules of origin.

Technical Standards. Harmonization of standards within the Community is one of the most important aspects of the EC92 program. The goal is to replace divergent national technical, health, and safety standards with unified standards for the whole EC. While this change holds great promise for expanding U.S. access to EC markets, it is also possible that new standards would be used to create nontariff trade barriers that discriminate against American-made products.

To avoid this result, Commerce Secretary Mosbacher and U.S. business leaders have pressured the Community to put U.S. representatives on the key committees that draft proposed EC standards. To date, the Community has said no. This has only heightened fears that individual European producers may use closed proceedings to develop standards favoring their own products.

Community officials maintain that U.S. business interests have ample opportunity to influence standards when they come up for public debate.

Joe Bhatia, vice president for governmental affairs for Underwriters Laboratories Inc., disagrees, however. "Once proposed standards emerge from committee, they may not be set in concrete, but experience has shown that it is not easy to make substantial changes," he says.

In a related area, U.S. companies are pressing the Community for liberalization of testing and certification requirements to provide for recognition of procedures performed outside the EC. A requirement that all product testing

Continued on Page 26

William T. Archey

What To Expect From EC92

Europe's market-unifying EC92 process could prove to be of significant benefit to small and midsized U.S. companies, William T. Archey, vice president of the U.S. Chamber of Commerce and chief of its International Division, told *Nation's Business.* Following are excerpts from the interview:

Will EC92 open the European market to small and midsized U.S. companies?

The Chamber's position is that 1992 offers enormous potential for new opportunities for U.S. business. We strongly endorse the idea of an integrated European market. But it's unclear at this point whether this potential will be realized. There are 279 directives [laws] that are a part of this process; 230 of them are in some form of completion. But for a lot of them, the moment of truth has yet to come.

Where should American companies look for potential problems?

The technical standards are a major concern, and the results so far are a mixed bag. Some U.S. companies have told me that they feel very comfortable that they are going to be participating in the standards-setting process quite directly. Other companies are telling me that they are afraid of being left out.

Will EC local-content requirements hurt U.S. exports to Europe?

The concern here is that local-content requirements will push U.S. companies into investing in European manufacturing facilities just to avoid certain tariff restrictions. The Community's recent semiconductor ruling is a case in point. But anybody who tells you that the die is already cast in favor of sweeping local-content barriers is wrong.

Will European Community governments give American companies a fair shot at their $600-billion-a-year procurement business?

The amount of government procurement the EC currently does with U.S. business is infinitesimally small. This is going to be a major litmus test regarding how open the EC market will be. A proposed procurement directive has two requirements that are of concern to us: Government purchases must contain 50 percent EC content, and local vendors will be given preference if their bids are no more than 3 percent higher than bids by non-EC companies.

Should we be surprised if the EC92 process occasionally tilts toward protectionism?

We ought to realize something fundamental. The ideology of 1992 and a single market does not spring from the fact that 17 EC commissioners all of a sudden decided that they were madly in love with the works of Adam Smith and that they suddenly wanted to show how intensely free-market-oriented they are. That is not the motivating factor behind 1992 deregulation.

What is pushing the process?

The motivating factor behind 1992 is a fear on the part of the Europeans that they were falling further behind the U.S. and Japan in the ability to compete in a global economy. They concluded that only through uniting the European market will they be able to develop the economic vitality necessary to make them a world-class competitor.

If they succeed in this effort, will European companies aim to grab a bigger piece of the American consumer market?

Yes, no question about it. In sectors like telecommunications, chemicals, and pharmaceuticals, European companies are going to become world-class. U.S. companies in those markets ought to start planning for a tremendous increase in competition from Europe.

Among American companies, who will be the winners and losers after 1992?

There may be no losers, and that's not puffery. The EC Commission projects that a unified market would add 2 percent to annual growth, reduce business costs by 2 to 4 percent, and create several million new jobs. An open and invigorated European market would be a winning combination for U.S. business.

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COVER STORY

EC92

Continued from Page 24

and certification be performed within the EC would burden U.S. manufacturers with high costs and long delays.

Reciprocity. Like fair trade, reciprocity means different things to different people. It is debated most often in relation to banking, insurance, and other financial services.

Hard-liners within the Community argue that EC trading partners must adopt laws identical to EC laws for financial-services companies to gain access to the unified European market. Under this approach, for example, a U.S. bank would not be allowed access to the EC market unless EC banks were granted equal access to the U.S. market. But that can't happen, because EC law permits banks to move freely among the 12 member states, while U.S. law restricts both domestic and foreign banks geographically and in the services they can offer.

The U.S. government and financial-services companies are pushing for a more flexible standard called "national treatment" under which U.S. companies would play by EC rules when on European soil, and EC financial-services companies would play by U.S. rules when on American soil.

While there are strongly divergent opinions within the EC member states on this issue, the EC Commission has indicated that it prefers not to take the hard-line approach of requiring that its trading partners' laws be identical to those of the EC.

Government Procurement. "Buy national" policies practiced by the EC's member nations all but exclude foreign firms from this $600-billion-a-year market. EC countries even discriminate against one another, effectively limiting even intra-Community competition for government contracts.

The EC Commission has proposed laws to expand cross-border procurement and pry open fiercely national buying policies in the big-ticket areas of telecommunications, energy production, water, and transportation. However, the proposed laws allow member states to refuse outside bids if EC content is below 50 percent. Community officials point out that the content requirement is modeled after "Buy American" government procurement programs in the U.S. that favor American-made products.

On balance, however, the EC is moving toward procurement policies that will open the way for greatly increased opportunities for U.S. companies.

The bottom line, U.S. business leaders say, is that American companies will benefit from EC92 to the extent that the European countries eliminate barriers among themselves and then between a unified EC and the rest of the world. Gerald Greenwald, vice chairman of Chrysler Corp. and chairman of the U.S. Chamber's EC92 committee, puts it this way: "Europe 1992 represents tremendous opportunities for American businesses—if Europe keeps its external border open while breaking down the walls among its countries."

Other trade issues besides protectionism make it important for U.S. companies to keep up their guard as the EC92 process moves ahead. Eamonn J. Bates, EC affairs manager for the American Chamber of Commerce in Belgium, says: "The real question has to do with the impact of EC92 on European competitiveness. How will the changes affect competition within Europe? And more important, how will that affect the world market?"

Archey, of the U.S. Chamber, says a leaner and meaner Europe will put new pressure on U.S. businesses—and not just those that trade with Europe: "An American company that has never and will never export a product has to be aware of what's going on internationally. Competitors will likely be coming into this market unless we just put up barriers to keep them out. And I don't think that's going to happen."

With the EC92 deadline 3½ years away, American business can perceive only a vague outline of the eventual impact of European economic unification. Like many small-business people who export, Tom Coulter, president of Coulter Steel & Forge in Emeryville, Calif., hopes that when the dust settles, the process will have helped more than hurt. Says Coulter: "The trouble with EC92 is that I don't know if anyone knows what its effect will be." NB

To order reprints of this article, see Page 89.

How The European Community Works

The structure of the EC government, with its executive, legislative, and judicial functions, is similar to that of the U.S. government. Power is exercised principally by four institutions: The Commission serves as the executive branch, the Council of Ministers and the Parliament make up the legislative branch, and the Court of Justice is the judicial branch.

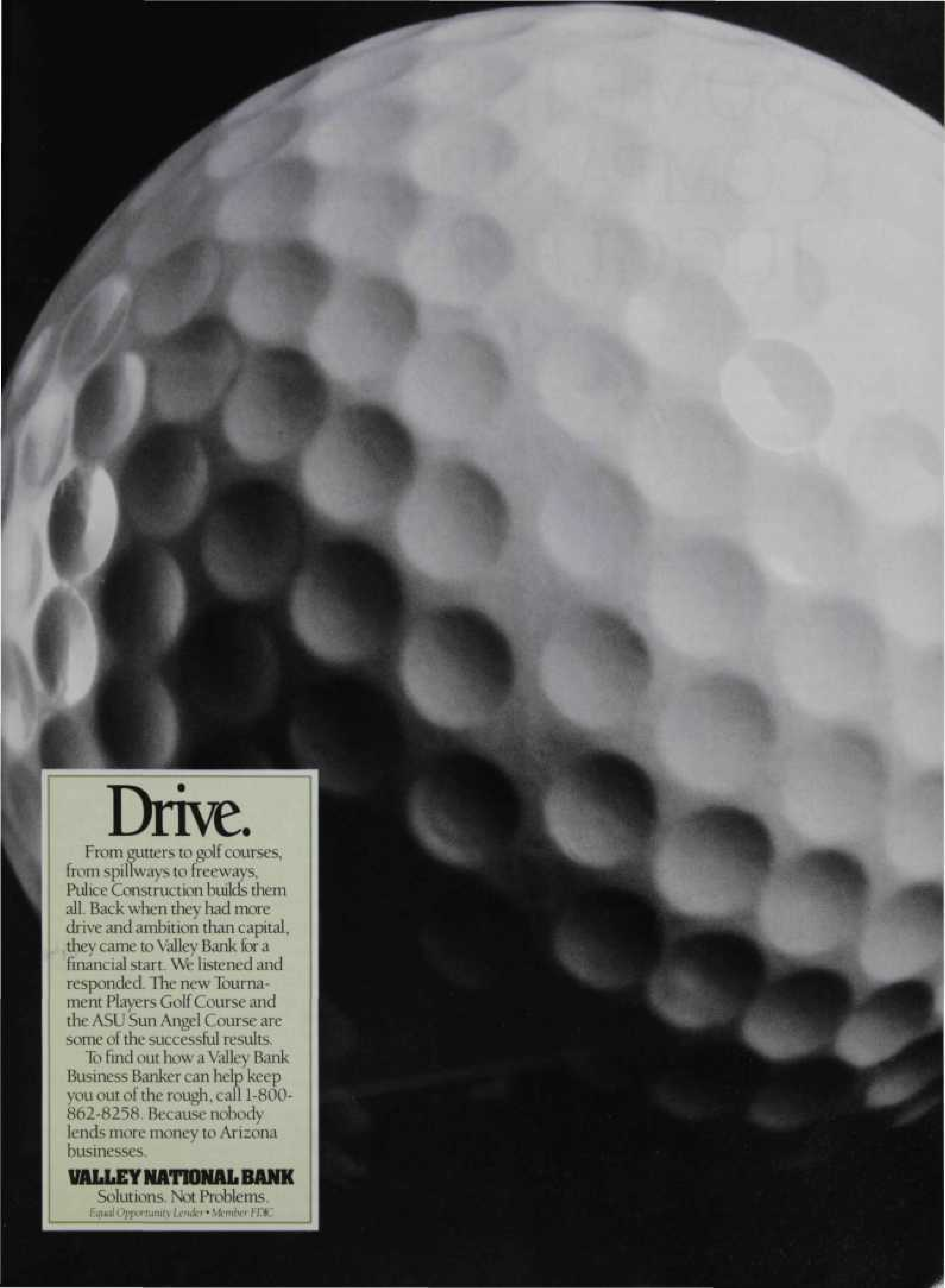
The Commission, based in Brussels, proposes legislation, implements European Community policy, and enforces EC treaties. With a few minor exceptions, all EC laws must originate with the Commission, making it the sole instigator of EC policy. The 17 commissioners—two each from France, Germany, Italy, Spain, and the United Kingdom, and one each from the seven other member states—are appointed to four-year terms by unanimous agreement among the EC's 12 member nations. The current Commission's term expires at the end of 1992. Commissioners are under oath to relinquish national interests in their service to the Community as a whole.

The Council of Ministers is composed of ministers from the 12 member nations and makes final decisions for the EC. Since July 1987, the Council, which meets in Brussels and Luxembourg, has ruled by qualified majority vote in most areas, rather than by unanimous agreement, as had been required. Seventy-six votes are apportioned among the 12 member nations according to population and economic output. A qualified majority is 54 votes. The change has quickened the pace of the legislative process by allowing the Commission to be more bold in submitting controversial proposals to the Council. It takes about 18 to 24 months to act on Commission proposals.

The Parliament is the Community's only directly elected body. Popular elections are held in each country in accordance with proportional representation. The elections are held in all 12 countries simultaneously. The 518 members of the EC Parliament serve five-year terms and meet alternately in Strasbourg, France, and in Brussels.

The Parliament's 18 committees hold hearings and develop recommendations on laws proposed by the Commission and forwarded for consideration by the Council of Ministers. Although the assembly's decisions are not binding, the amendments that it approves for proposed legislation often are accepted by the Council and incorporated into law.

The Court Of Justice, sitting in Luxembourg, is the Community's highest court. Its 13 judges—one from each member state plus an additional member to permit tie-breaking votes—interpret EC law. Its rulings are binding.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MANAGING YOUR BUSINESS

The Business-Education Link

A teacher suggests ways for employers to make an effective and immediate contribution to improving the quality of education.

By Joseph Dawes

(Our April cover story, "Would You Hire Him?" cited the view of many experts that business people are particularly qualified for a lead role in improving public education. These comments and recommendations from Joseph Dawes, a veteran high-school teacher in Big Spring, Texas, add another perspective to the discussion on steps needed to help the nation's schools. —The editors.)

I started teaching mathematics in 1961 and added computing in 1967. I have become concerned in recent years with the large number of students who come to me ill-equipped to learn what I have to teach. This problem has now moved into the national consciousness as a result of the reasons listed in your article—the need for a skilled work force to meet the challenges of the technological era and maintain American competitiveness.

Many of the suggestions for preparing tomorrow's employees for that environment assume (as your article does) that the country should look first to the business community for answers to education problems, that teachers somehow lack the managerial sense needed to identify problems and apply resources effectively to their solutions.

But as a teacher responsible for managing instruction in classrooms, I recognize a basic problem that other people do not see on a day-to-day basis: the failure of many parents to provide the support that is critical to the successful education of their children.

Any attempt to solve the education problems addressed in your article without modifying parental attitudes toward the education of their children is window dressing. Someone needs to work with the parents. We teachers can hardly ever contact them in any meaningful way. Both parents are usually at work all day, and our infrequent contacts with them come at awkward and inappropriate times and then are brief.

But you people in business see nearly all of these parents every working day. You can have their ears nearly any time you wish. They would listen to you. As business people, you now receive the deference that teachers once shared. You could saturate the workplace with reminders about the role parents must play if their children's education is to be successful.

PHOTO: © GERALD EWING

Teacher Joseph Dawes says business could help convince parents of the role they must play in making their children's education successful.

You could set up an informal, voluntary program to encourage parental involvement in education. Whether such an approach is feasible for you would depend, of course, on the nature and size of your business; but you would learn many things that would surprise you and, perhaps, give you better insights into the problems of education.

If you asked your employees with school-age children what topics their children worked on at school in the past week, most of them wouldn't know. The lack of knowledge would increase in direct proportion to the child's grade level. You would be interested in the results of such other discussion topics as whether the parents:

- Know the names of their children's teachers and the school-day schedule;
- Have inquired in the previous three weeks into their children's current grades;
- Require their children to bring books and papers home from school every day or make other efforts to see finished and graded work;
- Post in a prominent place at home examples of work that has been commended at school in the previous six weeks (this should apply to college students, too);
- Enforce rules about TV time, playtime, telephone time, and running-around time until school assignments have been completed;
- Ask their children to explain errors marked on a graded paper. If children plead ignorance of the reasons for their errors, do the parents urge them to politely keep after the teacher until they are satisfied that they know why they were marked off on a graded paper?
- Have even a general idea of what the graduation requirements are for their children in high school, whether those requirements are being met, and whether the pupils are meeting college and junior-college entrance requirements.

Just by raising these and other questions, you will be alerting parents to what parental involvement in their children's education means.

Another step would be a system of incentives to employees able to show their increased involvement with their children's education. Reward them as if they had come up with a money-saving idea for your company.

Here is one suggestion: All employers could set aside time (with pay) in the middle of each school semester to let employees visit each of their children's schools and get progress information. During the weeks after the visit, the employees would be encouraged to report to colleagues on how they are praising and rewarding achievements they learned about during their visits and how they are taking steps to solve problems.

I suggest that you try this program for at least two years. Surely the cost can't be any more than what we're all paying now for parental ignorance and detachment from the educational process. NB

MANAGING YOUR BUSINESS

Two For One: A Working Idea

By Jane Easter Bahls

A middle manager nearing retirement age would like to phase out of his job rather than quit "cold turkey." A talented attorney would like to stay home with her baby but not give up her work entirely. A graduate student needs part-time employment to pay her bills but wants a job with some challenge. A bright but disabled young engineer finds he doesn't have the stamina to work eight hours a day.

Sound familiar? For various reasons, many people want to work part-time, but they wouldn't be satisfied flipping hamburgers or filing letters. Frequently, those seeking part-time work are bright, capable men and women accustomed to responsible jobs—just the kind of people an employer would wish to keep.

So, forward-thinking companies across the U.S. are exploring options for retaining these employees while permitting them the flexibility they need. Options range from flexible work schedules and four-day workweeks to work-time reductions and leaves of absence. Sometimes, though, it's crucial to keep the job covered within the conventional working hours. Often in those instances, the needs of both company and employee can be met through job sharing.

In a job-sharing arrangement, two employees share one position, dividing the salary as well as the responsibilities. Each employee typically receives at least half of the benefits that go with the job, and sometimes each worker receives full benefits. In some arrangements, one works mornings and the other works afternoons. In others, each works 2½ days per week. Either way, the employees are responsible for keeping each other informed about the job's day-to-day requirements.

A team sharing a consulting job in Denver found that one partner was particularly good at leading seminars, and the other did well with administrative and budget matters. The two women divided their responsibilities according to their abilities, and they kept in contact with each other to make sure the job was done well.

"Job sharing creates part-time employment within the existing structure," and it does so without creating the extra paperwork of separately defined part-time jobs, says Patricia Lee, president of Workshare Inc., a management-consulting firm in New York. The arrangement can work to the benefit of the company. Valuable employees can stay with the company through various stages of life—such as child-rearing years—when 40-hour workweeks may not be desirable, and through their preretirement years, when workers may prefer reduced hours. Without a feasible alternative, these people would likely quit their jobs.

Lee notes that in a 1982 poll of retired workers, Travelers Insurance Co. found that many would have preferred to continue working but as part-time employees. Accordingly, the company redesigned its pension policy so that retirees could return to work for up to

Jane Easter Bahls writes on business and legal topics for a variety of national magazines.

Joint Resume

For Anne Saliers and Peggy Hoogerhyde of Grand Rapids, Mich., job sharing at Steelcase Inc. has offered the challenge of a management-level job that enables them to spend a total of four or five days a week at home with their preschoolers. "It has really made the difference on whether we've stayed employed or not," says Saliers.

Both women had been working for the office-furniture company for over five years when Hoogerhyde, expecting her first child, suggested job sharing. They prepared a joint resume for several salaried positions within the company, interviewed for them together, and landed a job as senior consultant in the Department of Corporate Sales Support.

Saliers and Hoogerhyde each work two days a week and alternate Fridays, preparing presentations for customer groups and working with sales representatives from the field. "We do most of our coordination by phone, or leave messages for each other," says Saliers.

"I really get two different sets of skills for the price of one," says their department director, Larry Sparks. "They have different abilities and complement each other so nicely. It's like getting a superemployee."

Steelcase now has three job-sharing teams. Two women work alternate weeks as dealer-service representatives, and job sharers in personnel work half days.

PHOTO: ©JEFF LAWRENCE

Anne Saliers, left, and Peggy Hoogerhyde share a position as senior consultant at Steelcase Inc., in Grand Rapids, Mich. They even share a babysitter for their children.

Job-sharing arrangements are popular with employees who want reduced hours—to ease into retirement, say, or to spend more time with children—and they benefit companies as well.

960 hours per year without any loss of pension benefits. Many chose to return, sharing their former jobs—and their work ethic—with employees in training. "With the graying of America, we need to find meaningful ways to put older people to work," says Lee. "You can't put these people out to pasture—they're too useful."

Likewise, job sharing can encourage parents of small children to continue working rather than leave the company entirely. Many new mothers presumably would like to work outside the home a few hours a day or a few days a week, preferring that kind of arrangement to having to decide whether to work full time or not at all.

Pairing two persons with child-care responsibilities often results in a reliable, energetic staff. Indeed, job sharing can increase productivity for companies willing to try it, says Gloria Golbert of Denver-based Seminars International, who has consulted with numerous companies on job sharing. Because they work only half the usual number of hours, Golbert explains, job sharers experience less burnout in their work. Accordingly, they tend to retain their energy and creativity through the end of their shifts, when a fresh partner arrives on the scene.

In addition, because they have more free time during the workweek, job sharers also are less likely to use working hours for personal errands, such as taking their children to the doctor or their car to the mechanic. Absenteeism drops significantly when workers share jobs, and so do overtime expenses, because when part-timers work more than their usual number of hours, they typically fall short of the threshold for overtime pay.

Another plus for shared jobs is that their recruitment expenses often are lower than those for full-time jobs, because job-sharing positions are still rare enough to keep demand for them high. "When a company advertises a position as available for job sharing, it's deluged with applications from highly competent people," says Golbert. She notes that those who obtain such a position are apt to be highly appreciative and unlikely to quit soon. But when one partner does leave the company, the position is still only half vacant. The remaining partner, who knows the job thoroughly, can be a valuable help in interviewing, selecting, and training a replacement in the job.

Often, too, each partner is willing to work full time when the other is absent for illness or vacation. Although job sharers generally have personal reasons for not working full time, many will do so for a week or two now and then to help out.

Like any management structure, though, job sharing can have its drawbacks. Keeping track of two employees means twice the payroll recordkeeping. And sometimes the partners' working styles are not well matched.

Norma Sandy, manager of administrative services for the Graduate School of Business at Stanford University, began sharing a job in 1978 when the woman who then occupied Sandy's current position wanted to ease into retirement.

Because she wanted the job, Sandy

Shared Work, Shared Strengths

When Martha Sanchez asked her sister Elizabeth to help out with her job as a bookkeeper for Casa Sanchez, a San Francisco-based Mexican food wholesaler, she didn't know the arrangement was called job sharing. She had newborn twins, had decided to return to school, and just needed help. Her boss, Robert Sanchez (no relation), "was really open-minded about it—he saw the work was being done," she says.

The sisters have been making sure the work is done for four years now. Their schedules vary each semester, depending on classes and the needs of their children. Elizabeth Sanchez does the monthly statements, and her sister takes care of calls to clients. "She's good at that, and I'm good at what I do," explains Martha Sanchez.

When one sister is ill or overworked, the other can cover for her. "It really helps with enjoying the job. I don't get tired of it," she continues, saying she has more energy because she's not working full time.

Martha Sanchez admits that problems arise sometimes when communication breaks down. "Communication between the two sharers is really important," she says.

Robert Sanchez says: "They can get the job done, and they come in motivated. Our philosophy is that it's best to get the job done right and have people happy about their work instead of our being rigid about schedules."

PHOTO: ©LINDA SUE SCOTT

Communication is crucial when two share one job, say Elizabeth Sanchez, left, and Martha Sanchez—sisters who divide bookkeeping duties at Casa Sanchez, in San Francisco.

shared the post for three years. The arrangement was not ideal, she says, because she and her job-sharer had different ways of working and communicating. "I wouldn't do it again," says Sandy, "unless I thought it was a really good blending of styles."

Not all jobs are suitable for sharing. The arrangement often works best when, for example, a job involves cases that can be divided, as in social work or legal positions, or it calls for distinct areas of expertise, such as a job with both consulting and administrative demands.

Sandy maintains that although job sharing works quite well at the secretarial level, where each partner is likely to pack up and go home at the end of a shift, it can be awkward in professional positions where people have a more dynamic approach to their work. Partners may decide to come in at the same time on certain days to provide some overlap, or one may stay later than usual to finish a project. In such instances, there may be two employees trying to work at the same desk or at the same computer terminal. "With a good job, you're going to be there more—you won't just leave at noon," she says.

Sometimes others in the company fail to acknowledge the limitations of the job-sharing arrangement, and they assume that two employees can accomplish twice as much work. Both partners find themselves working 30 hours a week or more while being paid for 20—a circumstance that is likely to cause resentment for the job-sharing employees. At the same time, other employees may accuse the job sharers of not being fully dedicated to the firm.

Suzanne Smith, co-founder of New Ways to Work, a San Francisco-based nonprofit organization conducting research and training on work-time options, maintains that the supervisor must help the job sharers think through their work and set up a system for communication.

"Make an absolute commitment to the concept and the job sharers, and let other employees know about it," says Denver consultant Golbert. Doing so can discourage other employees from criticizing the part-timers, and it can set the tone for success.

Lee advises companies to try a pilot project before launching a full-scale job-sharing program. "Start with a limited number of jobs, where there's enthusiastic support from the supervisors," she advises. An initial time limit should be set for the pilot project so that job sharers know the arrangement is not guaranteed to be permanent, she says, and the project should be evaluated according to specified criteria.

Because cooperation and communication are crucial to the success of a job-sharing team, Lee recommends that the position be designed carefully and described clearly so that important tasks don't fall through the cracks. For example, two administrative assistants could do each other's filing to stay on top of correspondence.

One negotiable issue is how many benefits to provide. Companies almost always cut in half the full-time salary each employee would receive, but they vary widely on questions of benefits. Some companies give full benefits to both job sharers, while others let the partners divide a single package as they see fit.

In a 1987 study conducted by the College of Business Administration at Cleveland State University, 90 percent of the companies with job-sharing teams provided partners with vacation and holiday pay, 70 percent provided sick pay, 60 percent provided pension and retirement benefits, and 50 percent provided health insurance. Some supervisors maintain that investing in full benefits for part-time employees pays off in increased pride and productivity.

Though most job sharers are enthusiastic about their positions, many have had to face resistance from labor unions, Golbert observes. "Unions have always pushed for full employment for all Americans," she says. "They're slow to accept the fact that some Americans may not want full employment."

Nonetheless, job sharing appears to be here to stay as a viable option for flexible employment. Says Lee: "If you give people the feeling that they're not helpless in the workplace, that they have some flexibility in the workplace, you're going to get a lot better quality of work out of them." NB

To order reprints of this article, see Page 89.

FRANCHISE/ENTREPRENEURIAL GUIDE

Independents Try Franchising

Considering becoming a franchisor or a franchisee? Here are some factors to consider, pitfalls to avoid, and steps to take along the way.

By Nancy Croft Baker

While some successful business owners may decide that the way to expand their operations is to become franchisors, a number of others are deciding instead to go the other way—to become franchisees.

In franchise terminology, an independent business that joins a franchise system and operates under the franchisor's name is called a conversion franchise. And for many businesses, it can be the best way to grow, particularly in a highly competitive environment.

Independents who become franchisees have various reasons for converting. Some want to gain access to better or hard-to-find products and services that they could not otherwise afford. Some want the marketing assistance that a successful franchise can give them. Some want the prestige of a big name. And in many instances, small independents want to reduce the ever-present risk of being run out of business by bigger independent competitors.

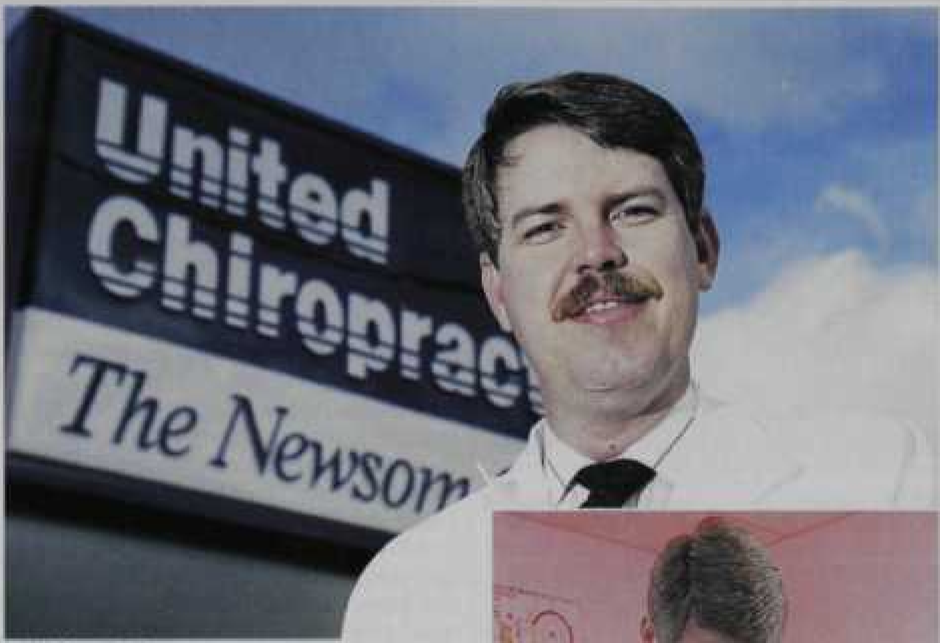
Bob Newsom, for example, bought a United Chiropractic franchise when he felt the pinch of competition. He set up a private practice in New Orleans a few years ago, and he discovered, he says, that "chiropractors in this town are very territorial" and compete vigorously for patients.

Newsom did not see himself as a marketer, however, and found it difficult to compete with the more aggressive chiropractors.

"I went to school to become a chiropractor, not a business person," he says. "I want to spend most of my time with patients, not doing paperwork." He also wanted to share treatment and technological ideas with other area doctors, but they were tight-lipped about their own procedures.

When he learned of United Chiropractic—also based in New Orleans—he saw an opportunity for "a free flow of ideas with fellow franchisees," he says. "I also like the idea of having someone else design a marketing plan for me." United Chiropractic, which was founded by Dr. Donald Stokes in 1986, helps franchisees land contracts with local employers to treat work-site injuries. Franchisees also give free health screenings at shopping malls, schools, and community health fairs. "It's a great way to attract new patients, but I probably wouldn't go to these events on my own," Newsom says.

Nancy Croft Baker is a Washington, D.C.-based writer who specializes in franchising and marketing topics.



PHOTOS: T. MICHAEL KEZA

Switching from private practice to owning a United Chiropractic franchise freed Dr. B.D. Newsom from many paperwork chores so he could spend more time with patients.

The main advantage for franchisees is United Chiropractic's marketing assistance, says Stokes, who also is a chiropractor and who spent six years conducting national marketing seminars for chiropractors. Like Newsom, most doctors don't have time to devote to marketing, but they need it to recruit new patients.

United Chiropractic also provides research and development of new techniques and equipment, market-research studies, and group buying discounts. Its 96 franchisees have direct access to the franchisor's 30-member support staff and the experience of its 41 company-owned units.

Two days after Newsom hung his United Chiropractic shingle last February, a new patient sought his services based solely on the recognizable name. "He walked in off the street after having seen the sign," Newsom says.

Because United Chiropractic recruits only conversion franchisees who have well-established offices, franchise fees are low. Stokes charges a $3,500 initial fee and a flat monthly fee of $250. The new franchisees already have invested in equipment and leasehold improvements and have a stable patient base. United Chiropractic simply helps them expand and improve.

Unlike Newsom, Kenneth Gabler had a leading edge on his competition. His independent video-rental store had garnered the highest sales among competi-

Independents Try Franchising

tors in King of Prussia, Pa. But when Gabler wanted to expand his small store two years ago, he never dreamed he would do it by becoming a franchisee.

Gabler and his brother, Dennis, started Valley Forge Video Inc. in 1984 with 800 videos, and within two years they had outgrown their store. "I begged my landlord to lease us a bigger space in the shopping center, but he wanted to go with a bigger-name video store," Ken Gabler recalls.

The landlord leased a larger space in the same shopping center to West Coast Video, a Philadelphia-based franchise.

"That made me really mad," says Gabler. So he called the home office and asked if his new competitor was a franchisee or company unit. When he learned it was a company-owned unit, he told the company he would buy the unit.

"I figured that if I stayed an independent and tried to compete, West Coast would take away 30 percent of my business anyway. So it was cheaper for me to pay the $15,000 initial fee and a 7 percent royalty every month." (West Coast's initial fee has since been increased to $40,000.)

PHOTO: ©SAL DIMARCO JR—BLACK STAR

Sales at Kenneth Gabler's video store in King of Prussia, Pa., tripled after he converted it to a franchise.

Although Gabler felt forced to join his competition, it has worked out for the best, he says. His independent store was grossing $225,000 annually when he decided to expand. Since becoming a franchisee, his sales have tripled.

"They've shown us a better way to market and display the tapes, and they've got a better selection. They're also a big name, and that has helped tremendously," says Gabler.

Over the past two years, most of his independent competitors have gone out of business.

Business was so good, in fact, that

Gabler and his brother opened two more franchises in the Wilmington, Del., area last year.

But the Gablers discovered that even a strong franchisor can't guarantee success with every unit. Although one of the new stores is doing well—about $300,000 last year—the other closed its doors in February. "That just shows you that the biggest name and all the advertising in the world can't make up for a bad location." Gabler's third store was in an out-of-the-way strip center that could be reached only from a major highway.

On the other hand, Hunter Huddle, who has a commercial-printing business in Lake Charles, La., found that joining a franchise system was one way to stay afloat in a bad location.

Like other business owners in the oil region, Huddle feared his family's business would go under when the oil industry collapsed. Although his business had been growing steadily for more than 40 years, its growth halted abruptly in 1982.

Fortunately, Huddle recalled reading an article about AlphaGraphics Printshops of the Future and asked one of its franchisees if the parent company would convert independent businesses. It turned out that the franchisee with whom he talked had converted his independent print shop to a franchise unit.

Impressed with AlphaGraphics' marketing and its research and development, Huddle converted that year. "When I was an independent, I would try any marketing tactic. I had no particular plan, and I was constantly trying to reinvent the wheel," Huddle says. "AlphaGraphics has more than 250 franchises. They know what works, and now they tell me."

AlphaGraphics charges a $47,900 initial fee and an 8 percent royalty, which includes a 1 percent advertising fee. The royalty percentage decreases as sales increase.

Huddle is happy with his franchisor's guidance. He now has two full-service satellite stores in neighboring towns. In addition, he has a small photocopying center. Despite the area's depressed economy, sales have increased fourfold since he converted, Huddle says.

Although West Coast Video and AlphaGraphics do not offer reduced rates to conversion franchisees, many offer discounts on initial fees and royalties. United Chiropractic offers a $500 discount to franchisees who pay a year's worth of monthly fees in advance.

How To Expand By Franchising

By Les Rager

You have a successful business that you are convinced is ripe for expansion. Franchising may be right for you—or it may not. As a franchise-development consultant, I have seen some thriving businesses become successful franchises. I've also seen some fail in the attempt. Those who have succeeded have gone about it in similar ways.

Their reasons for expanding by way of franchising generally include at least one of the following goals:

- Fast growth of operating units;
- Greater market penetration than would be possible without franchising;
- Greater commitment of an owner/operator—the franchisee—than is typical of an employee.

The approaches to franchising that I

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How To Expand By Franchising

have found common to those who have succeeded in the attempt cover a range of factors, from planning to financing to later expansion.

A prospective franchisor who wants to sidestep the pitfalls on the path toward franchising a business should consider the steps that others have taken.

Planning Ahead

A business owner who devotes a lot of time to planning before implementing a franchise system, who analyzes the potential for success, and who studies the concept of franchising has the best chance at success.

Before launching a franchise, the owner should ask himself what makes his business unique or distinctive. Has the business found its niche in the marketplace through superior products or services, a different method of delivery or marketing strategy, or some other method?

Unless a business owner can distinguish his prospective franchise from others in the field or from future competitors, he probably will have a difficult time finding franchisees.

A potential franchisor also should consider the business's lifetime. I have been approached by several entrepreneurs who wanted to capitalize on the latest fad—whether flavored popcorn or some highly specialized retail product—by franchising. They think that the faster they enter the market, the more money they'll make. Don't assume that today's craze will be tomorrow's money-maker.

Potential franchisors, like all other business people, also should be certain there is sufficient demand for the product or service, and that a franchisee would be successful in markets outside the prototype's location.

Many fast-food restaurants, for instance, have found out the hard way that the particular taste preferences of one geographic region are different from those of another.

Simple test marketing can prevent a costly mistake. To ignore this important rule is to court disaster in franchising—or any other business.

Figuring Costs

A franchise is successful when both the franchisee and the franchisor are profitable.

Without profitability on both sides, the franchise will not succeed. I have evaluated numerous businesses that had projected excellent returns from franchise fees and royalties, but they had allowed no profit margin for individual owners.

When analyzing the feasibility of a potential franchise operation, a prospective franchisor should be aware of the major start-up and ongoing costs to be faced. These costs include legal and accounting expenses as well as state and federal registration fees. In addition, there are the marketing costs—brochures and videos to sell the franchise to prospective buyers, programs to help franchisees sell the product or service to consumers, and franchisee training materials and manuals. There are costs too for advertising, for research and development of new products and services, for hiring and training support staff and franchise salespeople, and for providing franchisee support by supplying advice and making visits to franchisees' locations.

Sufficient financial strength is also needed to develop the franchise program and handle daily administrative costs until the franchisor receives a franchisee's royalties.

The many start-up costs can quickly drain a prospective franchisor's capital before the franchise is launched. The franchisor also must determine what the franchisee will need in order to be successful and must decide how much to charge in fees to provide these services while making a profit for the franchise company.

Avoiding Risks

Successful expansion through franchising requires a solid understanding of what it takes to build a franchise system.

The franchisor must know how quickly to expand, how to administer and train the franchisees, how much support to give, how to standardize, and how to handle problems.

If the franchisor lacks skills in these areas, a successful enterprise that appears easily franchised may stumble.

For instance, many new franchisors boast to prospective franchisees that dozens or even hundreds of franchises will be added to the system within a year.

This should signal a smart buyer to beware. Franchisors who make such claims usually are more interested in selling franchises than in providing adequate support to existing franchisees. Typically, the most successful franchise systems grow at a steady and well-planned pace—slowly at first, until existing franchisees are on their feet.

Franchising is also risky for the fran-

chisor who can't easily transfer his knowledge of the business to franchisees. A franchisor's business techniques must be taught in a reasonable period of time so that franchisees can operate on their own without constant attention.

When it takes a long time to bring a prospective franchisee from training to setting up shop, the franchisor is hindered from recruiting new franchisees into the royalty stream.

A new franchisor also can hit a snag if the management of the prototype operation balks at making the shift to franchising.

Administering a franchise system is significantly different from operating a business.

Employees have to learn new management and marketing methods in order to run a multi-unit operation and to support franchise owners—particularly if franchisees are located in many different states.

A prospective franchisor also should develop controls and monitoring procedures to help franchisees maintain certain standards. A franchisor should audit franchisees periodically.

In addition, to avoid legal problems, franchisors should make it clear to franchisees exactly what the franchisor will provide and what the franchisor expects in return from franchisees; the rights and obligations of each party should be spelled out in the franchise agreement, which is given to prospective franchisees before the deal is made.

Franchisors must comply with federal and state regulations that are intended to protect franchisees from unscrupulous franchisors.

A franchisor who does not heed the risks may face not only business failure but also legal battles with disgruntled franchisees.

Many franchisors in recent years have become embroiled in bitter legal disputes when franchisees claim the franchisors have not delivered on their promises. Most problems stem from little or no planning of the franchise program, poor communication from franchisors to franchisees, or from pressure to sell franchises to generate cash flow—usually at the expense of support to existing franchisees.

Securing Success

Many factors can cause a franchise operation to fail, but there are just as many that can help it prosper.

Here are the key points that have led

my clients to successful franchising:

- The franchisor is always looking for—and telling franchisees about—ways to improve the product and service. The franchisor also keeps franchisees abreast of the latest industry trends affecting the business and continually offers them management and marketing training.
- The franchisor extensively analyzes any area targeted for franchise expansion for long-term growth and profit potential prior to any actual franchise offering, thus significantly lowering the chances for franchisee failures.
- The franchisor understands that the business can grow and thrive only by providing constant and determined support of franchisees.

Franchising a business is far from simple. It can catapult a small business or new idea into the big time, or it can lead its founders to business failure.

By taking the time to evaluate the potential for success realistically, you can increase the probability of prosperity in franchising or opt to expand your idea through a more appropriate method of business growth.

Making The Most Of Consultants

By Meg Whittemore

Franchising a business is an enormous responsibility and a complicated process. Although it is possible to franchise a business on your own, many entrepreneurs hire a franchise consultant to see them through the process. A franchise consultant can spare a busy entrepreneur hours of frustration trying to work out the sundry problems that crop up in developing a franchise program. But consultants may be expensive, and sometimes they can be ineffective. As with anything else in business, it pays to do your homework before you invest.

Shelagh Watson, for instance, hired a consultant before she had adequately investigated her expansion options. "I probably met with the franchise consultant way ahead of my education on franchising," says Watson, president of Magnifete, a Cincinnati-based franchise specializing in attractive shoes for women with large feet. It proved to be a costly lesson. Watson estimates that in 1986, she spent as much as \$140,000, and she says, "I have yet to see a satisfactory return on my investment."

When Watson decided to franchise her business, she turned to a so-called one-stop franchise consultant who offered a "total" package—namely, all the franchise documentation, legal work, sales kits, marketing, grand kickoff, staff training for franchise sales, and advice on financing. The total fee quoted: \$54,000. She spent an additional \$86,000 on program-implementation costs. "In hindsight," says Watson, "it was foolish to think that one person could do all those things and do them well." Watson says that many of the services were not completed as promised.

Finding the right outside consultants to help you franchise your business takes some research. Attorneys, experienced franchisors, and franchise con-

Meg Whittemore is a free-lance writer in Washington, D.C., who specializes in franchise topics.

sultants themselves generally say that the best franchise consultant is one who has firsthand experience in franchising—as a franchisor, franchisee, or franchise director.

The search for a franchise consultant was labor-intensive for Jackie Clark, president of A Choice Nanny, based in Columbia, Md. "There's no substitute for doing the research yourself," she says. Clark began her education by reading a great deal about franchising, then attending a two-day seminar for franchisors and a one-day seminar for franchisees—both sponsored by the International Franchise Association. (The IFA can be contacted at 1350 New York Ave., N.W., Suite 900, Washington, D.C. 20005; 202/628-8000.)

A franchise consultant can spare a busy entrepreneur hours of frustration trying to work out the sundry problems that crop up in developing a franchise program. But consultants may be expensive, and sometimes they can be ineffective. As with anything else in business, it pays to do your homework before you invest.

In 1986, when Clark decided to franchise her nanny referral and placement business, which then was 5 years old, she elected not to use a one-stop-service approach. Instead, she contracted with two people, one to provide her with legal advice and the other for marketing and financial help. Clark was pleased with her choice for legal support, but she says, "I never did find someone who had the knowledge of financing to the extent that I needed." As a result, her budget projections for the first year of operation as a franchisor were not accurate. However, what her franchise consultant lacked in financial expertise, he made up for in marketing. "It's the most important part of the equation," says Clark. "No market, no success." Magnifete's Watson agrees: "What counts is marketing and industry knowledge."

Personal references from trusted business associates can be helpful in setting out to find a reputable consultant, says Susan Kezios, president of Chicago-based Women In Franchising. "As with any business, you make your contacts with people you know do a good job."

Kezios does not recommend one-stop franchise consultants because, in her view, they are too expensive; their fees can be as much as $150,000. She says that budding franchisors can spend such amounts in better ways, such as marketing the business. Kezios faults not only the franchise consultants but also franchise attorneys. She says that both usually obtain an overview of the franchising process, but sometimes they fail to consider whether someone

can make a living and a profit by franchising the particular business concept. A former franchise broker, Kezios is particularly critical of one-stop consultants who try to fit businesses into a franchise mold. "Many businesses were packaged for franchising when they should not have been," she says.

According to Kezios, a competent franchise consultant should do the following:

- Determine if the best method of growth is through franchising.
- Educate the prospective franchisor to understand the fact that he or she is departing the land of shoe sales, for example, and entering the land of franchising. "Just because you run a successful shoe store doesn't mean you are going to run a successful franchised shoe store," says Kezios. "Franchising is a whole new ball game."
- Be convinced that there is a sound business plan that can be implemented and replicated by a newcomer to the business.

Clearly the message is to shop around for your consultant. But there is no foolproof method for finding the right group of franchise consultants for your needs. Perhaps the time-tested approach of talking with someone who has been through the franchise-consultant search should be emphasized. Says Shelagh Watson: "If I had an opportunity to talk with somebody else who had franchised and been through the process, then I might have found out what to watch out for and alternatives to the choice I made." NB

"Just because you run a successful shoe store doesn't mean you are going to run a successful franchised shoe store. Franchising is a whole new ball game."

SUSAN KEZIOS
PRESIDENT,
WOMEN IN FRANCHISING

Tips For Choosing A Franchise Consultant

In your search for a franchise consultant, various experts say, you should bear in mind the factors listed here.

1. Conduct an internal assessment. In what part of your business do you need help—management, operations, financial?
2. Interview several consulting firms that claim they specialize in those areas, and start by asking what the firms have done in the past.
3. How do the consultant's skills relate to the company's specific needs?
4. How much does the consultant charge, and what is the payment schedule?
5. How much time will the consultant be able to devote to the company?
6. Do the people in the consultant's firm share the same vision for the company as its owners? Or is the firm's approach more like putting the company through a franchise-processing machine?
7. Is the consultant geographically near the company? If not, you might want to look for someone closer.
8. Will the consultant customize the company's training manuals, operations manuals, and business plans? Not all operations and training manuals are alike.
9. Will the consultant be on-site for a portion of the contract? This is important because the consultant must know how the company actually operates day to day.
10. Does the consultant understand not only franchising but also the company's industry?

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MANAGING YOUR BUSINESS

A Struggle For Control

May Gruber's clash with her father's patriarchal tradition was a classic case of how unresolved business conflicts can tear a family apart.

By Sharon Nelton

She's 77, she still jogs for exercise, she owns and manages a million square feet of commercial real estate in Manchester, N.H., and in recent months she has been promoting her book *Sky Hooks and Track Shoes* (Brick House, 1989), a career-planning guide.

But learning about May Gruber's newest book led us to her first book, *Pandora's Pride* (Lyle Stuart, 1984), her account of the bitter family feud that once beset Pandora Industries, a sweater and sportswear company in Manchester.

Through several decades, May Gruber and her father clashed over family-business issues that she concluded were rooted in his patriarchal attitudes. Their struggle proved to be a classic illustration of how unresolved business conflicts can tear a family apart.

For the first seven years of her life, little May, the daughter of Morris and Bertha Blum, both European Jewish immigrants, was an only child.

During those years, May Gruber recalled in an interview, her father, a successful businessman in the garment industry, "had enough pleasure in me as a child to inculcate a lot of his spunk and daring."

Then, she says, the "crown prince," her brother, Ted, was born. In her brother's birth and in her father's adherence to the tradition of patriarchy, she says, lay the seeds of a battle for power that would tear the family apart 45 years later.

When May was only 19, she and her first husband, Sol Sidore, co-founded Pandora with her parents in New York. Yet it wasn't until seven years later—seven years of protesting by May and her husband—that her father, who had registered himself as sole owner, put it in writing that his daughter and son-in-law owned 50 percent of the business.

The year 1940 saw two important events: Pandora was moved to Manchester for economic and other advantages, and May's young brother, Ted, joined the family firm.

In 1944, when she had the third of her five children, May turned to full-time motherhood, and her father urged that Ted be made a partner. Sol and May thought it was unfair—Ted had put in only four years compared with their 13. But they agreed to a five-way split, hoping the concession would keep peace in the family.

PHOTO: © TOM SOBOLIK—BLACK STAR

The survivor of nearly 60 years in business and a falling-out with her partner-father, May Gruber dispenses career advice in a new book.

May's parents divorced in 1947, but until they did, her father, through his own shares and the shares owned by his wife and son, had control of the company.

Though he really wanted his son to head the company, Morris Blum could not deny his son-in-law's talent for running Pandora; in 1955, Sol Sidore was named president and chief executive officer, and Ted became executive vice president.

May's father, who had been named chairman, went into semiretirement and, from his home in Florida, launched a campaign to enhance his son's power in the company.

Despite having signed agreements to transfer shares to the grandchildren, he declared he would give all his voting stock to Ted, and he began to pressure his ex-wife to do the same. Sol and May Sidore offered to buy out Morris Blum, but he refused to sell.

And so it went until Sol Sidore suffered an aneurysm and died in 1964. May's brother Ted announced that he would take over Pandora, but she decided to fight that move.

Working through their lawyers, the two sides came to an agreement on a price of $1.5 million for buying each other out. Because there was so little trust in the family, the agreement stipulated that the price would have to be paid in cash. But it also gave May first option and 90 days to exercise it.

She found people were willing to help her raise the money.

A dealer bought the company's knit waste and advanced her a sum in six figures, mortgaging his home to do so because of his faith in her.

"One morning I walked in to find a $10,000 check on my desk," she wrote. "Unsolicited, it had come from my secretary and her husband. I sat in Sol's rocker and cried like a fool."

The sale was concluded four months after Sol's death. After the papers were signed, May wrote, "The children and I embraced. My mother sat alone. My father, leaning heavily on Ted, hobbled out. Neither man looked at us. I never saw my father again."

When May took over Pandora in 1964, it had $12 million in annual sales and 850 employees. When she sold it in 1983, it had grown to $40 million in annual revenues and more than 1,100 employees.

In 1967 May married Sam Gruber, then an employment-agency owner. She says that *Sky Hooks and Track Shoes* describes the "rules of the road" that she followed to achieve her goals. The message is one of combining dreams with reality: "Always I scanned the horizon for the furthest mountain peak I could glimpse. There, with imaginary sky hooks, I anchored my dream." Then, she says, she laced up her track shoes and relied on a carefully drawn road map to guide her.

May Gruber is on speaking terms with her brother again, and she has lost the bitterness she once felt about her father, who died in 1968.

Her father grew up in a home where "the man symbolized everything and the woman was his willing slave," she says. "As time has gone on, I have really learned to forgive him. He couldn't help himself. That's the way he was raised." NB

MANAGING YOUR BUSINESS

State Funds For Start-Ups

Seeing small business's vital role in job creation, many states have set up development programs to help entrepreneurs get under way.

By Joan C. Szabo

In 1985, Raymond Kralovic and Edward Schneider needed a loan to bring their new medical-sterilization process to market. They found most bankers and venture capitalists unwilling to give them financial backing, however. So the two entrepreneurs turned to a different type of funding source—the state of Ohio and its Thomas Edison Seed Development Fund.

The state fund provides capital for research-and-development projects leading to new products, processes, and systems. If an entrepreneur's research project is approved, the seed program directs the funds to an Ohio academic institution that will conduct the research for and with the entrepreneur.

Ohio's Edison program is just one of the many small-business-development programs that state governments have established to assist entrepreneurs. Most states are aggressively responding to the financial needs of small firms, experts say, because they have come to realize that small companies play a vital role in creating jobs and solidifying a state's economic base. By one expert's estimate, states invested over $500 million of their own money in business development in 1987.

For Kralovic and Schneider, the Edison program approved a $43,000 grant, which eventually helped them start their company, Steris Corp., of Painesville, Ohio. Says Bill Sanford, president of Steris: "The state money was important because it funded research on the sterilization process at Case Western Reserve University. But more important, once the concept was proven at the university, the process gained credibility and made it possible for Steris to attract bigger financing."

The company now has 50 employees and plans to hire 50 more within the next 12 months. Sanford says that Steris enjoys a continuous stream of orders for its liquid chemical process that sterilizes medical equipment in only 20 minutes. The conventional method of sterilizing endoscopic equipment, used to examine body cavities, requires as long as 16 hours.

Kralovic is vice president for research at Steris, and Schneider remains on the board of directors. Both are substantial shareholders in the company.

States realize that small firms have more difficulties than larger companies in raising the capital needed to start new operations or to expand existing ones. Financial institutions usually find it more profitable to lend a large amount to one borrower than to make several loans to firms with much smaller capital needs. To address these difficulties for small businesses, state governments are coming up with innovative business-development programs. "States are competing with each other to make their local business climates more attractive for smaller firms," says Frank Swain, chief counsel for advocacy for the U.S. Small Business Administration. "There is heightened small-business activism out in the states, and those in the legislatures and in the governors' mansions not only want to create more jobs but [also] want to be responsive to a growing small-business constituency."

Almost every state now has financing programs for small companies, says Swain. His agency issues *The States and Small Business: A Directory of Programs and Activities*, and the latest edition contains over 400 pages. (To order, see the box on Page 44.)

PHOTO: © BRUCE ZAKE

Employees at Steris Corp., in Painesville, Ohio, inspect sterilization units that embody a new process developed with seed money from the state of Ohio.

"Tending to our home-grown industrial base, including small business, is extremely important to our state," says Pennsylvania's executive deputy secretary of commerce, Andrew T. Greenberg. "We have sent out a signal that small business is not a stepchild to economic development in this state."

Greenberg says small business boosted Pennsylvania's economy with nearly 174,000 jobs from 1980 to 1987, and most of the jobs were in companies with fewer than 20 workers. Among the state's several programs for small companies is its capital-loan fund, which is designed to assist small manufacturing and export-service businesses.

Pennsylvania also operates the Ben Franklin Partnership Program. Designed to promote advanced technology in an effort to make traditional industry more competitive in the international marketplace, it also aims to spin off new small businesses on the leading edge of technological innovation.

"One of the principal activities of the Ben Franklin program is to provide grants for cooperative research and new-product development between businesses and universities in our state," says Greenberg.

In their quest for financing assistance, however, entrepreneurs all too frequently ignore state government, says Christopher Coburn, executive director of Ohio's Thomas Edison program. "But the states are becoming very innovative in this area, and entrepreneurs should investigate the programs offered."

The goals of states' capital-formation programs are diverse. A U.S. Small Business Administration report, *Capital Formation in the States*, says: "Some states provide assistance in an effort to revive faltering local economies; others strive to continue balanced local economic growth; still others seek a broader tax base."

The extent of the commitment to small-business financing varies among states. Ohio, for example, puts nearly $3 million a year into its small and developing program for business. In addition, the state recently created a pooled bond program that allows small busi-

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Massachusetts has a number of programs, including the Massachusetts Industrial Finance Agency, a quasi-public agency created to stimulate investment and job creation in the state. The agency offers a variety of tax-exempt and taxable bond and direct-loan programs.

Whether the commitment is large or small, state programs still "cannot address all the financing gaps that entrepreneurs get caught in, nor can they supply all the funding that companies need," says Miles Friedman, executive director of the National Association of State Economic Development Agencies. Often, an entrepreneur must supplement state funds with other sources of financing, both private and federal.

States offer several different types of financing instruments, ranging from direct and guaranteed loans to royalty-sharing arrangements. Most loan programs are developed and administered by state development authorities that have been created by legislation.

Funding mechanisms for business-development programs include direct state appropriations, bond issuances, and public-private partnerships that are established by the state to attract private investment and leverage state funds for capital financing. Some states even use lottery proceeds to provide loans or grants to small businesses.

As part of this effort to make financial assistance available to small companies, many states are taking steps to improve access to risk capital. David Osborne, a consultant on economic and community development, writes in his recent book, *Laboratories of Democracy* (Harvard Business School Press, Boston): "Many state governments have set up public or public-private venture-capital pools and loan funds. Some have invested portions of their employees' pension funds in venture capital or small-business loans."

Ohio's Coburn notes that his state was the first to invest public-employee pension dollars in venture-capital funds. Through this program, more than $100 million in pension funds have been invested in Ohio businesses.

In addition, Osborne writes, "A few states have changed the rules governing the private marketplace to encourage more venturesome investing behavior and catalyzed the formation of new private institutions such as seed funds and business and industrial development corporations (BIDCOs)."

A BIDCO is a private, for-profit financing corporation chartered by a state to provide both equity and long-term debt capital to small-business owners. In general, the state's only involvement is to enact legislation permitting BIDCOs to incorporate.

Michigan is aggressively developing a BIDCO industry; two BIDCOs are operating in the state, and six others are raising capital and eventually will become operational.

The BIDCO program is one of five different programs developed by the Michigan Strategic Fund, a state business-financing agency. "The philosophy behind MSF is to service the financing needs of small business by expanding the private sector's ability to provide that kind of service rather than by just having government do it," says Peter Plastrik, president of the fund. State capitalization of the Michigan Strategic Fund came about through the auction of leases for oil and gas drilling, which will amount to about $180 million through 1992.

To encourage BIDCO formation, the MSF is making equity investments of up to $2 million in each BIDCO, contingent on organizers' raising at least $2 in private equity for every $1 in MSF equity. Plastrik says there may be 20 to 25 BIDCOs operating in Michigan within five years. It is estimated that the $10.25 million the MSF has committed to the first six BIDCOs will produce nearly $500 million in business financing during the next decade.

In addition to financing programs, many states operate support programs to assist entrepreneurs. "There is a tremendous marshaling of resources at the state level," says Friedman of the National Association of State Development Agencies. Michigan, for example, has the Women Business Owners Service, which provides advocacy and assistance for women entrepreneurs, and the Minority Business Enterprise program, which encourages business development among minorities.

Indiana has Small Business Development Centers, which provide counseling, training, and referral services through a network of local centers.

The recent proliferation of financing programs indicates a real commitment to small firms, says Friedman. "The states are getting more aggressive and more talented at devising financing programs. For small companies looking for financing, these state efforts are a resource worth tapping." NB

How To Find Financing Sources

States are assuming a larger role in small-business-development assistance by offering entrepreneurs a variety of financing programs. To determine the types of programs available in your state, experts say, you should investigate a number of sources. "A good first step is your local chamber of commerce," says Joel Wiener, who is with the law firm of Wiener & Wiener, in Allentown, Pa. The firm advises small and medium-sized companies on business financing. Your local chamber can provide you with valuable information and direct you to the economic development director in your area, he says.

In addition, you should contact the commerce department or the economic-development department in your state capital. This department can provide you with details on financing and other programs available to small business.

There also are two federal publications that provide useful information on small-business programs at the state level. One is *Capital Formation in the States*. It gives a basic overview of business development, describes some state financing programs, and lists a directory of state contacts. For a free copy, write to the U.S. Small Business Administration, Office of Advocacy, 1441 L Street, N.W., Premier Building 408, Washington, D.C. 20416.

The other publication is *The States and Small Business: A Directory of Programs and Activities*. The 1989 edition lists state executive departments and agencies, independent boards, and semipublic corporations that serve small-business interests through loans, loan guarantees, and joint ventures. To order, write the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402-9325, or call (202) 783-3238 to charge your order. The cost is $12, including postage and handling. Please provide the stock number: 045-000-00257-8.

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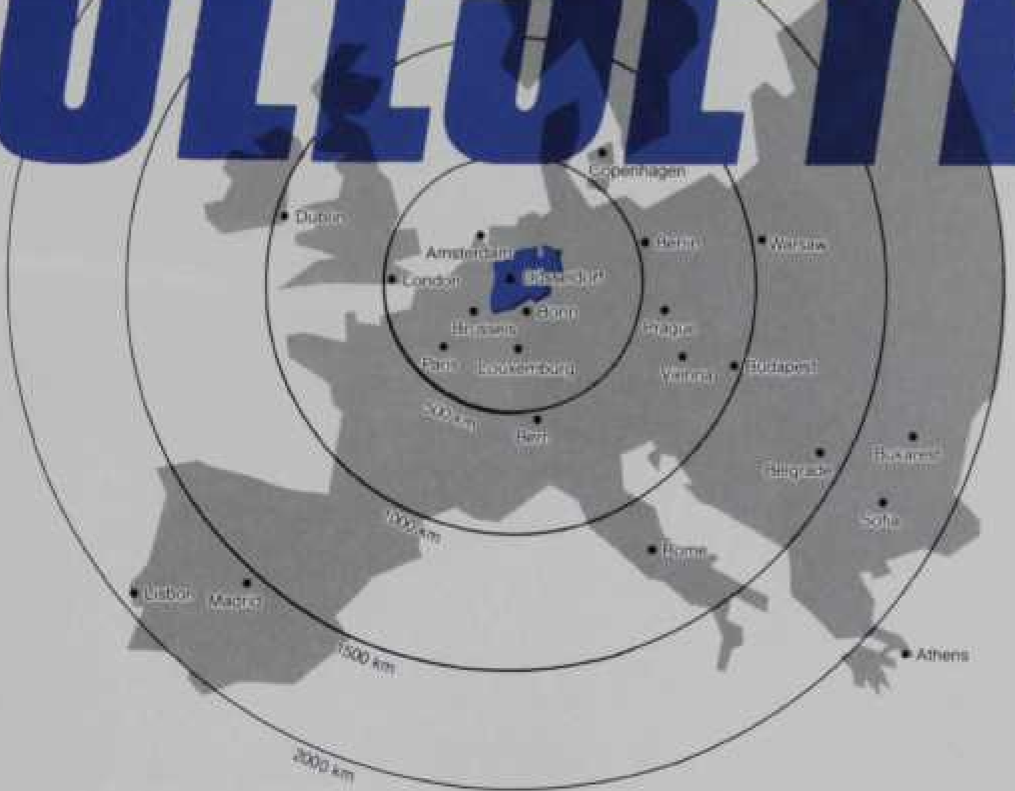

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MANAGING YOUR BUSINESS

Congress Warms To Estate Freeze

Many federal lawmakers want to restore the recently eliminated estate "freeze" technique for keeping family firms in the family.

By Joan C. Szabo

A move is under way in Congress to restore the estate-freeze approach for transferring family businesses from one generation to the next.

This legislative action results from widespread protests that elimination of the freeze method has jeopardized the ability of heirs to retain ownership of a family business.

Prior to its abolition in late 1987, the estate-freeze method was used in those family businesses that had achieved substantial success under a founder/owner. The procedure typically began with a recapitalization. Much of the current value, voting power, and income was allocated to preferred stock retained by the owner. The owner sold or gave nonvoting common stock to the heirs.

Growth of the business was allocated to the common stock and was not reflected in the owner's preferred shares. Estate taxes became due on the value of the preferred stock, which generally had not risen since the recapitalization. Without the freeze, estate taxes are calculated on the entire value of the business at time of death.

Those taxes can overwhelm the heirs: 37 percent on the value of an estate above $600,000, increasing to 55 percent on amounts above $3 million. The first $600,000 is exempt. Estate taxes can be due as soon as nine months after a death.

The 1987 change, contained in Section 2036(c) of the Internal Revenue Code, essentially eliminates the use of the estate freeze as a technique to perpetuate family firms with minimal tax consequences.

Under Section 2036(c), the tax cost of transferring ownership of a family business is dramatically increased, says Ross W. Nager, head of the family-wealth-planning practice in the Houston office of Arthur Andersen & Co., an international accounting and consulting firm. Such an increase could cause the sell-off of many family firms whose heirs would be unable to pay the excessively high estate taxes.

One family-business owner who says the tax-law change threatens the future of his company is Roy Hunt, 67, who owns Hunt Tractor, a construction-equipment sales firm in Louisville, Ky.

PHOTO: © BILL LUSTER

Roy Hunt, right, worries that his heirs, including son Scott, left, may have to sell the family firm, Hunt Tractor, in Louisville, Ky., to pay estate taxes.

Founded by Hunt 46 years ago, the firm employs 55 people and has annual sales of $14 million. He fears that after he and his wife have died, his son, Scott, and daughter, Judy, may have to sell the family firm to pay federal estate taxes if Section 2036(c) is not repealed. "Maybe that is what our Congress wants, but it is not what our economic system needs," he says, noting that family firms create jobs and foster business development.

Rep. Bill Archer, R-Texas, senior Republican on the House Ways and Means Committee, has introduced legislation to repeal Section 2036(c) and restore the estate freeze as a tax-planning option. His bill, H.R. 60, has 54 cosponsors, and that number is expected to grow in coming weeks. In the Senate, Republican Steve Symms of Idaho has introduced a similar measure, S. 659.

"In addition to preserving continuity of the business," says Washington attorney Anthony J. Obadal, the estate-freeze approach "kept the older generation involved in the business and provided the older principal with a comfortable retirement income. The children benefited as the value of the common stock grew through their efforts."

But congressional tax drafters and Internal Revenue Service officials disapproved of the freeze method, and 2036(c) was enacted without congressional hearings or debate on the subject. The motivation behind the change, says Nager of Arthur Andersen, was "the perception that taxpayers were understating the value of the common stock at the time of the freeze [and] . . . not paying enough income or gift tax on the transfer of that stock." He says the Internal Revenue Service also believed it was unable to prevent such practices.

The American College of Probate Counsel says that the change "unfairly favors families whose wealth is represented by cash and marketable securities over those who own farms or small businesses."

Section 2036(c) affects any owner who holds at least a 10-percent interest in a business. If such an owner transfers a "disproportionately large share of the potential appreciation" of that firm to a family member, the market value of that share plus all future appreciation is taxable as part of the estate when the original owner dies.

The law defines a "disproportionately large share" as one that is greater than the share that is retained by the owner. The result is a large increase in estate

PHOTO: © RICHARD DERK

Jack Miller, president of Quill Corp., in Lincolnshire, Ill., says elimination of the estate freeze raised questions about his plans to transfer stock to his children.

taxes for family-owned businesses.

"Unfortunately, to catch a few abusers," says Rep. Archer, "Congress enacted virtually an entire new estate-tax system on top of the old one. This new one is ill-defined and potentially frightening in its reach." He says members of the tax-writing committees were never given an opportunity to consider less burdensome alternatives to Section 2036(c). "Instead of protecting family business, these rules create a bias in favor of breaking up the family business," he says.

Jack Miller, president of Quill Corp., in Lincolnshire, Ill., is another family-business owner who feels the effects of Section 2036(c). He started Quill in 1956, and it has grown into a $250-million mail-order company selling office supplies. His brothers Harvey and Arnold later joined the business.

Jack Miller says he would like to give his children some of the company's nonvoting stock—even if he has to pay gift tax on it. But under Section 2036(c), his attorney says, it is not clear whether his estate will be taxed for any appreciation of nonvoting stock he gives them unless he gives the children both voting and nonvoting stock in the same proportion in which he owns both types of stock. The effect of such a stock transfer would be to change the ownership balance of the company, he says. "My brothers and I want to maintain control, so we have been hung up for months on this stock transfer because of the far-reaching nature of Section 2036(c)."

In addition to its onerous impact on family firms, "the law was drafted broadly, encompassing nonfamily members, and may apply to certain transfers to employees or others," says Obadal. "For example, transfers for below market value of nonvoting stock to employees may conceivably be covered and consequently included in the principal's estate and taxed accordingly."

Thomas Brock, an accountant with the Longmont, Colo., firm of Brock, Buchholz & Stow, says, "Such an extended reach is typical of the recent direction Congress is taking, which is to try to tax small business out of existence." Brock, a member of the U.S. Chamber of Commerce's Small Business Council, says, "Congress is killing the goose that lays the golden eggs."

David Bork, a family-business counselor in Aspen, Colo., says, "The provision is brutalizing the family-controlled business."

The U.S. Chamber and other groups, including the American Bar Association, strongly support the legislative repeal effort. "We believe that the estate-freeze rule is a disaster, and we want it repealed," says John Carson, attorney in the Tax Policy Center of the U.S. Chamber. He says the Archer bill is likely to make substantial progress this year. "Congress is receiving a lot of mail on the disastrous impact of Section 2036(c)."

Archer says: "We consider the prospects for passage good. We hope that H.R. 60 will be included in the budget-reconciliation measure which will be considered this summer by Congress. As we gain more and more cosponsors, the outlook for passage of this bipartisan measure increases."

Meanwhile, estate planners, tax specialists, and family-business owners await guidelines on Section 2036(c) from the Internal Revenue Service. They are expected to clarify the types of transfers affected by the elimination of the estate freeze.

Still, most opponents of Section 2036(c) believe repeal is the best way to clarify the dilemma for most family-business owners. Consultant Bork says that it is crucial for Congress to "make it possible for family businesses to pass on their companies more reasonably than the 1987 tax law provides." NB

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It's 6 a.m. and still dark in Riverside Park, on the banks of the Han River, which runs through Seoul, the capital of the Republic of Korea. As the sun begins peeking over Mount Namsan, within the Seoul city limits, the park begins filling with Koreans of all ages.

On the path around the park are scores of joggers—from the very young to the very old. Within the oval defined by the path are countless Korean teenagers and adults, playing soccer or tennis, practicing the martial art of taekwondo, doing calisthenics, or stretching. Outside the dirt track, food vendors stock their tents and carts. Along the river, employees of companies that operate sightseeing and cruise ships wash decks and docks.

Across the Han, smoke spills into the morning mist from factories where other Koreans are already at work producing automobiles, electronic home appliances, and innumerable other items, with much of their output slated for export.

Anyone witnessing this daily daybreak drama could hardly keep from at least chuckling at the billboards almost everywhere in Seoul that describe Korea as the "Land of the Morning Calm."

The phrase "Land of the Morning Calm" is a derivative of the Korean word *Choson*, the name of the nation's last dynasty. But although Korea may have been a calm land at the dawn of the 20th century, now, the nation and its people are rushing forward at a frenetic pace in pursuit of economic parity with the world's industrial elite. The current goal, government officials say, is to gain before the year 2000 the level of economic development that it has taken the democracies of the West a century to attain.

PHOTO: © KIM NEWTON—WOODFIN CAMP

A Korean collage: The Seoul skyline and its tourist district, Itaewon, at night; a highly automated Hyundai Motor Co. assembly plant in Ulsan.

Yet despite the focused and determined efforts of the government, many inside and outside the country are skeptical about Korea's ability to transform itself from a so-called Newly Industrialized Country into a fully developed democratic nation. It is indisputable that Korea has made tremendous economic and political strides since 1960. But it is less certain that the nation can put behind it trade-related problems and much of the internal unrest in evidence there today. The challenge is particularly difficult because the government fears it cannot meet the timetable that the U.S. has set on its demands for changes in Korean trade policies.

Ironically, many of those demands stem from Korea's all-out effort to improve its performance in global trade. "Our most eager hope was to emerge from our [trade] deficit situation. Our hope came true, but this has led to many other problems," notes Choi Sang-Chae, director of the Trade Cooperation Department of the Korea Foreign Trade Association (KFTA).

While the country has few natural resources, it has arguably the most energetic and hardest-working people on Earth. Largely as a result of the tireless efforts of its people—the average Korean works about 55 hours a week—Korea's gross domestic product (GDP) increased from about $8.8 billion (U.S.) in 1970 to $64.2 billion in 1980 and to $171.5 billion last year, according to the Ministry of Trade and Industry (MTI). On a per-capita basis, GDP increased from about $270 to more than $4,100 over that 18-year period.

And as Korea got richer, so did its workers. The per-capita income in Korea—with slightly more than 40 million people—was less than $100 just 30 years ago and was about $3,000 in 1988, according to MTI.

The growth of the Korean economy and of its people's wealth parallel the growth of trade volume. In 1960, the Korean govern-

The Korean government is retraining some farmers for high-technology jobs. The worker at left below is performing a space-age task: inspecting wafers of microchips in a "clean room" at Lucky-Goldstar Semiconductor Ltd.

PHOTOS: ©NATHAN BENN—WOODFIN CAMP

ment decided to target assistance to those industries and companies with the greatest potential for exporting. Since adoption of this policy, exports from Korea have risen at an average rate of 37.6 percent a year, says MTI, topping $60 billion in 1988. Last year, Korea exported more than all but 12 other nations.

Almost as if fate were rewarding the Korean people for enduring decades of suffering at the hands of others, their political system also grew more free as they grew richer. This movement culminated in free and open elections and the inauguration in February 1988 of President Roh Tae Woo.

Yet anyone who has seen even just one television news account of stone-throwing students and workers clashing with truncheon-wielding riot police can sense the heavy burden under which Korea is laboring as it evolves from an inward-looking society into a world-class trader, from a largely agrarian economy into a highly industrialized one, and from an autocratic system of government into a democracy. In fact, officials in Korea routinely speculate that under some circumstances, much of the economic and social progress made during the past few decades could be reversed even more quickly.

The most serious of Korea's internal problems is labor unrest. Strikes continue to beset many of the nation's key industries, according to MTI figures, despite rapidly increasing per-capita income and average wage-rate increases of 9.9 percent in 1985, 9.2 percent in 1986, and 11.6 percent in 1987.

During the three-year period 1985-87, the number of strikes increased from 265 to 3,529, and the number of worker-days lost to these strikes grew from 64,000 to 6,947,000, MTI reports.

As a result of a startling 22.8-percent average wage increase in 1987, worker-management relations improved slightly last year. The number of strikes declined to 1,873, resulting in 5,401,000 lost worker-days.

But things appear to be worsening again this year. In late March, for example, police had to wrest control of a Hyundai shipyard in Ulsan, about 150 miles southeast of Seoul, from militant striking workers. The strikers among the yard's more than 20,000 workers had disrupted production there since December 1988, at an estimated cost to Hyundai Heavy Industries of about $6 million a day.

Even if no new strikes occur this year, work disruptions will have a significant negative effect on 1989 economic growth and exports, according to government analysts. Labor disturbances at key suppliers of parts to Hyundai Motor Co., Daewoo Motor Co., and Kia Motors Corp. forced the three leading Korean automobile manufacturers to suspend operations for a time in mid-April, resulting in loss of production of 2,400 cars a day.

But if Korean government officials are concerned about strikes and an accompanying slowdown of economic growth, about rising inflation rates (inflation accelerated from 2.8 percent in 1986 and 3 percent in 1987 to 7.1 percent last year), and other domestic problems, they are equally if not more concerned about the prospects of a trade war with the U.S.

Hyun Oh Seok, director of the International Policy Coordination Office of Korea's Economic Planning Board, in an effort to put his country's trade discussions with the U.S. in perspective, says: "I believe relations between Korea and the U.S. are very solid and robust despite some friction. My concern is that this friction should not be allowed to undermine relations that have been good and mutually beneficial for almost 40 years."

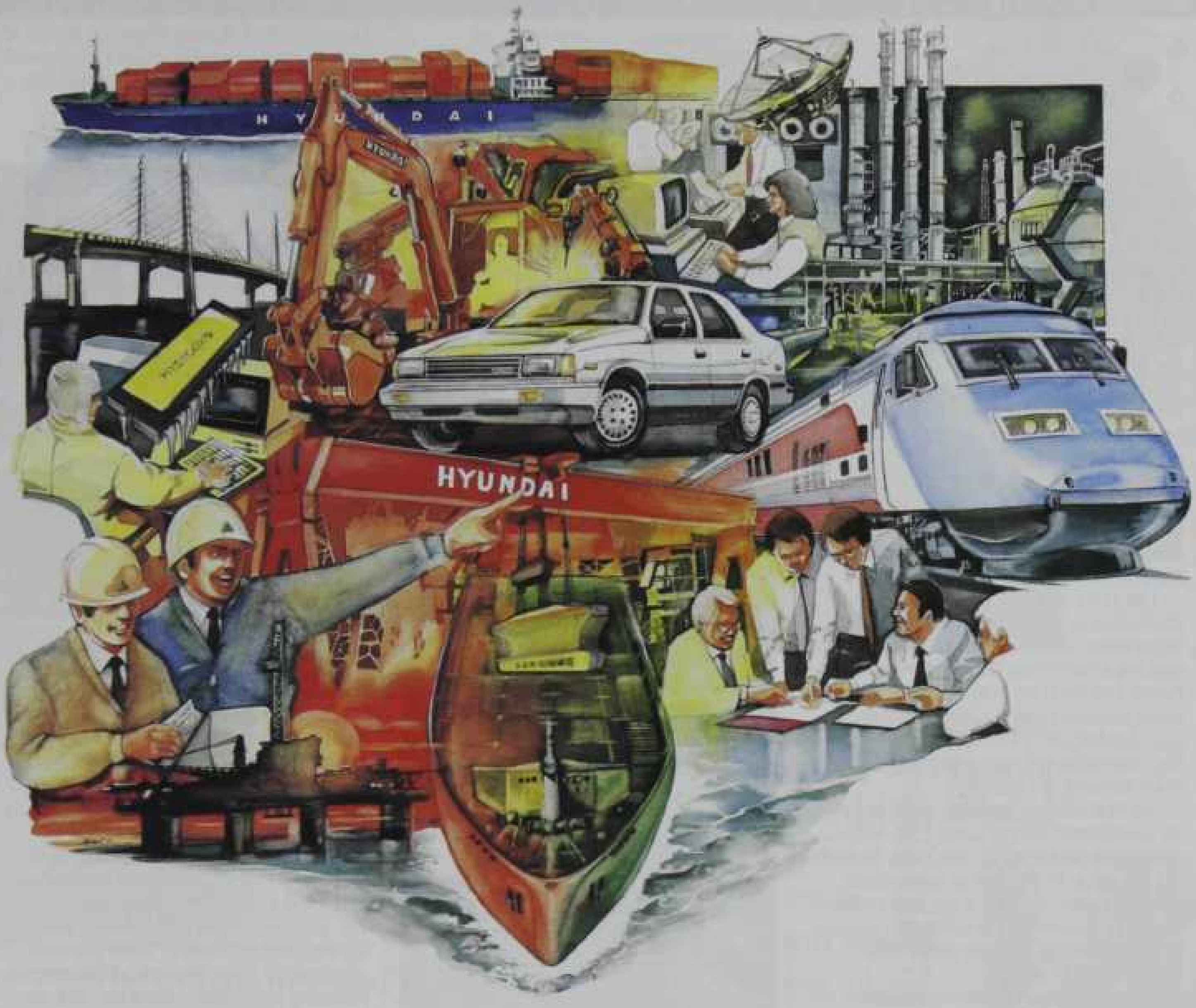
The U.S. is Korea's largest trading partner. Last year the U.S. took about 35 percent of Korea's exports and provided about 25 percent of its imports, according to MTI. From the U.S. perspective, Korea is among its top 10 trading partners. Last year Korea ranked sixth in purchases of U.S. exports, taking 3.2 percent of the total, and ranked seventh in supplying U.S. imports, accounting for 4.2 percent of the total. (These and other trade figures supplied by MTI may not be identical to corresponding U.S. figures because of different methods of collecting and calculating them.)

The U.S. ran large trade surpluses with Korea for almost all the four decades that the nations have been economic and political allies. But in recent years—the same years that it has begun running enormous overall trade deficits—the U.S. has been experiencing sizable trade deficits with Korea.

In 1986, Korean exports to the U.S. exceeded imports from it by $7.3 billion. In 1987, the Korean trade surplus reached $9.6 billion. Last year it declined somewhat, to $8.5 billion. This year, as a result of internal factors and Korean efforts to increase imports from the U.S., the deficit is all but certain to decrease substantially again, but perhaps not by enough to satisfy the U.S. government, which is threatening retaliation against Korean exports.

For their part, Korean government officials contend that these statistics tell an incomplete story of today's trade between their country and the U.S. They point out that imports from the U.S., according to Korean figures, increased 46 percent last year while exports to the U.S. increased only 17 percent, about half the rate of the previous year. And in the early months of this year, they add, the growth rate of Korean exports is negative compared with a year ago, while the growth rate of imports from the U.S. is up again, by a sizable 30 percent.

"1989 may well be the watershed year



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The Ssangyong Cement Co., in Dongle, and its tireless workers exemplify the teamwork that has transformed Korea from an isolated and largely rural nation to a world-class trader of industrial products.

in our efforts to restore a balanced trade relationship between the U.S. and Korea," Nam Duck Woo, chairman of the KFTA, said at a meeting convened in Washington recently by the U.S. Chamber of Commerce.

Nam and other private- and public-sector officials in Korea stress that trade with the U.S. is vital to their nation's future, and achieving the most balanced trade possible within internal political constraints must be among Korea's highest priorities.

But percentages and rankings can obscure the story behind Korean-U.S. trade friction. Most telling now are dollars and won, the Korean currency.

The value of the won relative to other currencies is "perhaps the issue of most importance to the U.S. and other countries wishing to sell more [consumer] goods in Korea and do more business with Korea's small and midsized business owners," says Shin Myoung-Ho, director general of the International Finance Bureau of Korea's Ministry of Finance.

For that reason, the focal point of Korean government efforts since 1986 to balance trade with the U.S. has been increasing the value of the won in comparison with the dollar. "Korea is the first country as far as I know to appreciate its currency at the beginning of its surplus years," notes the KFTA's Choi.

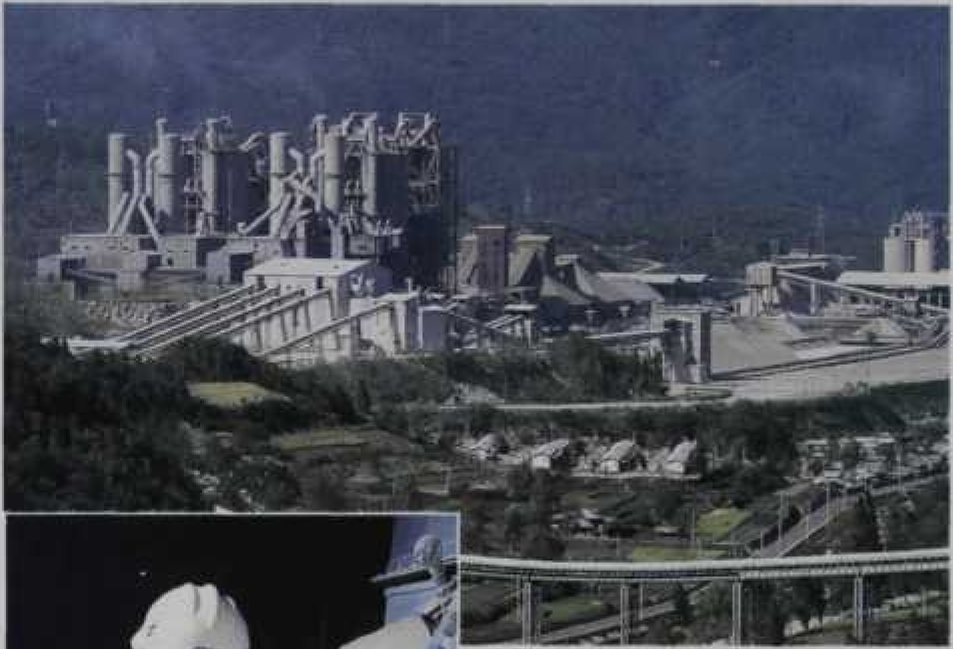
Since that year the won appreciated about 30 percent against the dollar; last year it appreciated 15.8 percent, more than the currency of any other country, notes Shin. Through the first four months of 1989, the won appreciated an additional 2.5 percent against the dollar, and the exchange rate now is about 665 to 670 won to the dollar.

"We hope to be in a position to further appreciate our currency," says Shin. This will be determined by internal factors such as labor-management relations, he says.

But the U.S. government demands a more concrete commitment. A recent U.S. Treasury Department report to Congress recognized the substantial appreciation of the won as "a welcome response to our concerns," but it contended that the extent of the rise "remains insufficient."

Taking the side of the Koreans in this ongoing dispute is the Institute for International Economics. A recent study by the institute's C. Fred Bergsten theorizes that the won is at its proper value now. The report concludes that Korea-U.S. trade can be brought into balance at this rate.

In an effort to validate Bergsten's conclusion, Korea has in place an aggressive program aimed at increasing further the already growing value of imports from the U.S. This complex plan, which reflects demands made by the U.S. government, has several key components of interest to U.S. business owners and managers.



PHOTOS: © KIM NEWTON—WOODFIN CAMP

Opening The Market To Manufactured And Agriculture Imports. Korean efforts to liberalize imports of manufactured and agricultural products are about five years old. These efforts have intensified since 1986, Korea's first surplus year.

Import restrictions are applied still to fewer than 550 of the nearly 10,250 items under the international Harmonized System, according to KFTA. The government plans to remove restrictions on these items by 1992, says Nam.

Only about 41 manufactured items are still restricted from import, and that seems to be satisfactory to the U.S. government, according to MTI officials. But although Korea is the second-largest purchaser of U.S. agricultural products, the most volatile issue before trade negotiators—if it's not the proper won-dollar exchange rate—is the pace at which the Korean market can and will be opened to U.S. agricultural and fisheries exports.

In an effort to end this dispute, the Korean government announced in mid-April that it will open its market to imports of 243 additional farm and fisheries products during 1989-91. Among these products are some of great concern to Washington, including pineapples, bananas, and soybean oil, says Sohn Chan Joon, director of the International Cooperation Division of Korea's Ministry of Agriculture, Forestry and Fisheries.

This latest market-opening announcement is politically significant in Korea because it "affirms the government's conviction that the agricultural economy must be fully opened up" eventually, says Young Soogil, senior fellow at the Korea Development Institute (KDI). The institute is a think tank formed by the government in 1971 to assist economic ministries and economic planning boards.

The government will continue to meet resistance in carrying out this conviction because of the small scale of Korean farming, says Sohn. Most farms produce only small amounts of rice and a few cattle. Sixty percent of farms in Korea are less than one hectare (2.47 acres), and 30 percent are less than one-half of a hectare, he says. What's more, there are about four people per farm household in Korea, and these people are almost totally dependent on income from their farm, Sohn says.

This obviously difficult economic situation is complicated politically by the fact

that Korea's ruling party was heavily supported by farmers, who now make up 18.8 percent of the population. "Previously conservative farmers are very outspoken in this era of democratization. They no longer blindly support the ruling party," Sohn says.

"The incumbent Korean government is fully committed to opening the domestic [agriculture] market," assures KFTA's Nam. "I wonder, then, is it really in America's best interest to weaken that government and stir up anti-American sentiment for the sake of a few hundred million dollars a year in additional U.S. farm exports to Korea?"

Reducing Tariffs. Korea began reducing import tariffs in 1984, according to Park Sang-Tae, director of the Industry and Tariff Division of the Customs and Tariff Bureau of Korea's Ministry of Finance. Under a new five-year plan, average rates will be reduced further, from the current 18.1 percent to an average 7.9 percent.

The plan was subject to extensive public hearings. As a result, says Park, "most potential problems were smoothed over, and the plan sailed through the General Assembly."

Removing Nontariff Barriers. The Korean government has commenced a comprehensive review of about 40 laws and regulations designed to protect public health, safety, and morals and against import surges that have been used to impede imports. "We still have a lot of laws that have been allowed to serve as nontariff barriers," admits the Agriculture Ministry's Sohn. Government officials say such laws will be amended or repealed as soon as possible. So will remaining domestic-content laws and regulations.

In response to U.S. requests, public-procurement contracts have been opened to foreign bidders, and discrimination against them has been prohibited.

Protection of intellectual-property rights was assured with passage in 1986 of a sweeping reform law, say Korean officials. While this statute appears good on paper, some in the U.S. charge, its enforcement has not been a high priority. To address these allegations, the Korean government recently created a task force and charged it with overseeing a crackdown on producers of counterfeit goods. In under three months, police have arrested 33 people for counterfeiting or violating trademark rights and have seized about $2 million worth of bogus goods.

Opening The Services Market. America's highly competitive service industries have been among the nation's most active in seeking to enter foreign markets, and Korea has taken steps to accommodate them, says MTI's Hwang. The services-liberalization problem is "politically not that severe" here, he says. The Korean government is taking a sector-by-sector approach to opening up services, and "we're making progress," he adds.

On most days, about 20,000 Koreans report for work at Hyundai Heavy Industries' shipyard in Ulsan. But work was disrupted there in the first three months of this year by militant strikers, at a cost to Hyundai of about $6 million a day. Strikes will have a negative effect on Korea's economic growth, government analysts say.

PHOTO: © NATHAN BENN—WOODFIN CAMP

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According to an MTI report, for example, as a result of U.S. requests the Korean government already has partially applied the principle of "national treatment" to Korean branch offices of foreign banks, allowed establishment of joint-venture leasing companies, and allowed establishment of foreign-owned and joint-venture insurance companies.

In the sensitive area of telecommunications trade, KDI's Young says: "In essence, the Korean government is willing to accede to U.S. requests, but the issue is timing."

Buying American. The Korean government is providing foreign-currency loans and other incentives to the private sector to buy from countries with which it has a trade surplus, especially the U.S. These incentives could total as much as $5 billion this year.

Korea also is sending big buying missions to the U.S. and is trying to reach out to small and midsized U.S. businesses under the U.S. Commerce Department's Export Now program. "The U.S. has many, many items that are competitive and attractive here. When most Korean people think of imports, they think of Japan, but that is starting to change," says MTI's Hwang.

Also in cooperation with the U.S. Commerce Department, the Korean government scheduled a 1989 U.S. product show in Seoul, Nov. 15-18. A similar show two years ago resulted in $82 million in contract awards to participating U.S. businesses, according to KFTA.

But spending time and money to advance charges and elaborate defenses does not improve the standards of living in either the U.S. or Korea, government and private-sector officials generally point out. MTI's Hwang says: "The U.S. government and U.S. businesses should look at the possibilities here, not the negatives. Korea really is a fair-trading nation. There is a lot of opportunity in Korean markets, so let us work together to maximize coming opportunities" for the peoples of both countries.

LESSONS OF LEADERSHIP

Education: The Competitor's Key

The quality of learning is the concern of every firm that wants to succeed in the global marketplace, says the U.S. Chamber's new chairman.

By Robert T. Gray

No business large or small can afford not to be terribly concerned about the education crisis facing the United States today," declares John L. Clendenin, chairman and chief executive officer of BellSouth Corp. "It bears directly on our competitiveness as a nation."

With that statement, Clendenin spotlights a major theme he plans to pursue as 1989-90 chairman of the U.S. Chamber of Commerce: education reform as the key to successful American competition in today's global marketplace.

Clendenin assumed the top elected post of the world's largest business federation at its recent annual meeting, moving up from vice chairman. He succeeded William S. Kanaga, chairman of the advisory board of Arthur Young, a major international accounting firm.

As head of the U.S. Chamber, Clendenin will represent the business community at the highest levels of government on the wide range of public-policy issues affecting the enterprise system.

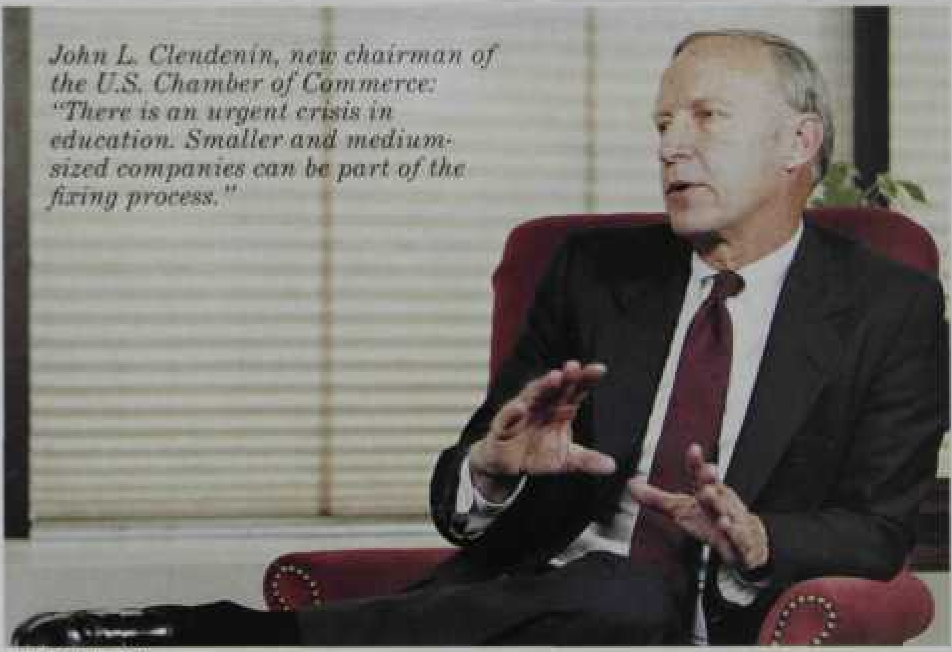
His concern about improving educational quality, Clendenin says, will be part of the emphasis he wants to place on "competitiveness in all its aspects."

Other issues affecting America's ability to compete in global markets, he explains, include:

- Making sure American business is not disadvantaged by the economic unification of Europe, which begins in 1992;
- Achieving federal budget balance through spending controls, not tax increases;
- Preventing imposition of mandated benefits that would add to operating costs of American businesses, putting them at a disadvantage in world trade.

Clendenin comes to the Chamber chairmanship with a background of leadership in the telecommunications industry, which has been on the cutting edge of the information-management revolution that has made major changes in the way Americans work and live. He has been chief executive officer of BellSouth since its creation on Jan. 1, 1984, and chairman of the board since April 1 of that year. A native of El Paso, Texas, he graduated from Northwestern University in 1955.

With time out for service as a pilot in the U.S. Air Force Strategic Air Command, Clendenin has spent his entire working life in the telecommunications industry. He began in sales and marketing with the Illinois Bell Telephone Co., advancing there and through subsequent service at Pacific Northwest Bell Telephone Co. in Seattle, American Telephone & Telegraph Co. headquarters in New York, and Southern Bell in Atlanta, where he became president in 1981.



John L. Clendenin, new chairman of the U.S. Chamber of Commerce: "There is an urgent crisis in education. Smaller and medium-sized companies can be part of the fixing process."

PHOTO: T. MICHAEL KEZA

In 1984, Southern Bell and South Central Bell became part of BellSouth Corp., the largest of the seven telecommunications companies established in the historic restructuring of the American telecommunications industry. Under a consent decree settling a federal antitrust suit, AT&T retained its long-distance and equipment-manufacturing components but divested the 22 Bell operating companies, which emerged as seven independent companies.

In addition to the two telephone operating companies, BellSouth also includes BellSouth Services, which performs staff and planning functions, and BellSouth Enterprises, which includes worldwide mobile communications, directory publishing, telecommunications systems, and computer leasing and maintenance.

BellSouth revenues went from \$9.6 billion in 1984—its first year of existence—to \$13.6 billion last year. The company ranks behind only AT&T and General Motors Corp. in total number of shareholders.

Clendenin points out that to most of its publics, BellSouth is "still 'the phone company,' but we now conduct business in some 45 states and 20 foreign countries" because of explosive growth of telecommunications services in the Information Age.

Another activity of BellSouth reflects the company's commitment to improving the quality of education. It's the BellSouth Foundation, now endowed with \$35 million to seek out and support innovative programs that encourage excellence in teaching and learning at the elementary, secondary, and college levels.

Appraising the current state of American schools, Clendenin says: "There is an urgent crisis in education in this country. Everybody knows it. The negative statistics keep rolling out in an avalanche. As the chairman of a company which employs 100,000 people, I worry about the educational product our schools pour each year into the work pool. We see young people coming into our employment offices who lack the qualifications needed to pass tests for even the entry-level positions.

"We know that the highly technical jobs of the Information Age are going to make the problem even worse be-

Education: The Competitor's Key

PHOTO: THE WHITE HOUSE

PHOTO: T. MICHAEL KEZA

John Clendenin reports to President Bush on the 1989 U.S. savings-bond drive. At left, Clendenin addresses the kick-off meeting for the bond drive in Bossier City, La.

cause the skill requirements are going up.

"If our young people don't have the skills necessary for the kinds of jobs existing in the year 2000, then both our domestic and foreign customers for our products and services will look elsewhere in the world, and the American economy will suffer."

There is a role for all businesses in the effort to turn that situation around, Clendenin says: "Smaller and medium-sized companies can join this effort. They can volunteer to be part of the fixing process at the local level. They can adopt a school or join with others in adopting schools. They can work hard to understand what some local problems are, what has to be done to fix them, and they can offer career guidance to young people."

While improving educational quality is among Clendenin's chief concerns, he also will be discussing other issues under his agenda of "competitiveness in all its aspects."

The economic unification of the 12 European Community nations taking effect in 1992 will be a crucial competitiveness issue, he points out: "American businesses need to spend a lot of time fully understanding and planning for the changes that will occur." (See the cover story, Page 18.)

He links that development to the long U.S. campaign for "a level playing field" in which no trading partner creates barriers to a bilateral flow of goods and services.

The quest for the level playing field, Clendenin says, is becoming a more urgent goal as European unification nears. "I think that 1992 may indeed compound some of the problems that exist in that area," he says. "We can't afford to let EC92 evolve into the 'Fortress Europe' that many people are concerned about—the closed market that favors its own products to the exclusion of others. That concern is real. A Fortress Europe would be very damaging to the economic health of our country. We have to speak forthrightly and early to make sure that doesn't happen."

How much success is this country having in its efforts to achieve the level playing field? "I think we are making some progress," Clendenin says, "but I think that it is still a lot easier for foreign companies to play in the American ballpark than it is for American companies to play overseas."

He rejects protectionism as an answer and calls for a top-level U.S. effort "to emphasize the urgency of this problem and work with foreign governments. I'm not too sure that we put enough heat on some of these countries."

Turning to domestic issues as factors in competitiveness, Clendenin says that the budget deficit is one of the most pervasive: "Business is totally impacted by the continuing need to deal with the deficit problem. We haven't licked it. I don't think we have really bitten the bullet on government spending in a way that we're going to have to."

His response to calls for tax increases to balance the budget: "It is a simplistic notion that you can solve all economic problems by imposing taxes. We can't afford to do anything that causes a loss in competitiveness by saddling American businesses with additional tax burdens."

On the question of whether the federal government should require businesses to provide benefits such as health care, parental leave, and a higher minimum wage, Clendenin says that such proposals "are well-intentioned. They suggest ways of dealing with issues that are surfacing as concerns in the minds of many Americans.

"We haven't quite accommodated some of the dramatic shifts in the working population, such as the impact on children when both parents work. But the question is whether we can saddle American business with additional economic burdens and expect them to remain competitive. What do we gain by driving several hundred thousand workers into unemployment because the small and medium-sized businesses that had employed them were unable to absorb the costs of these new mandates? Does that put us ahead as a nation? Clearly, it does not."

The goal, he says, is finding "a middle ground that recognizes the reality of the problem but doesn't make that problem worse. I am not sure that I have yet seen any proposals that pass muster on that basis."

Clendenin points out that the U.S. Chamber has been pressing the various issues associated with competitiveness for some time now, and he will be reinforcing those positions in his year as chairman of the business federation.

It will be a busy year. In addition to his duties with the Chamber and his continuing responsibilities as head of one of the world's largest companies, he also is this year's chairman of the

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LESSONS OF LEADERSHIP

Education: The Competitor's Key

U.S. Savings Bonds Volunteer Committee, which heads up the effort to encourage Americans to purchase savings bonds. Clendenin came to that job through his company's strong commitment to the program and his own service as chairman of the campaign for the telecommunications industry. James A. Baker III, then secretary of the treasury, asked him last year to take the top job in the volunteer effort on the savings bonds.

The results of the bond campaign are "absolutely" worth the time and effort required, Clendenin says: "Over and above the critical importance of cultivating a positive attitude toward savings in this country, which I think is really justification enough, our government depends heavily on savings bonds as a source of revenue."

To look at it from the savings perspective, he explains, "you must realize that in the 1980s, the American personal savings rate dropped to 3-4 percent, compared with about 13 percent in West Germany and more than 20 percent in Japan. A lot of dreams can be achieved if people adopt a habit of personal savings."

Then there is the revenue impact: "For every $1 billion in bonds we sell, we save the government $70 million in interest charges on the national debt. So if we reach this year's $8-billion goal, we will save $560 million in interest.

"People who buy bonds are saving for their own futures and helping the country. It's a painless way to save. If you don't see it, you don't spend it. The obvious advantage is that today's bonds earn market-driven rates."

He sums up his service in the drive: "It's not hard for me to get enthused and involved about a program that achieves such results."

That enthusiasm extends to his other activities. It takes the form of both optimism and a warning when he is asked whether, despite problems and challenges, the U.S. retains the ability to compete aggressively in today's global marketplace: "Absolutely. America has the raw capabilities that should permit us to do very, very well in the competitive arena."

Clendenin also offers this caveat that is the basis of his agenda as a principal spokesman for American business: "We have to work at it. The world is charging ahead, and technology is charging ahead, and we have to keep competitive. Status quo won't do it." NB

THE NATION'S BUSINESS

SBA's Woman In Charge

The Small Business Administration's new leader sets to work on an ambitious set of goals for the agency.

By Donald C. Bacon

When Susan Engeleiter was growing up in a small-business family in Milwaukee, she helped out occasionally in her father's floor-contracting firm. "I've striped a few gym floors in my time," she says, recalling with a note of pride that her father still uses the labels she designed for the firm's packaged floor-care products. It is from such a personal perspective that Engeleiter, the newly confirmed administrator of the Small Business Administration, sees the problems and contributions of America's small-business owners.

In describing herself as a "forceful advocate of small businesses" who intends "to make sure the SBA remains independent and strong," she speaks with conviction.

"I view my role as one of speaking out on small-business issues in general within the administration," she explains. "It's also my job to manage the programs at SBA. I promised President Bush that I will speak out for small business and see that programs are well run to the best of my ability."

Engeleiter, 37, a lawyer, comes to Washington from Wisconsin, where she served 13 years in the state legislature. From 1984 through 1988, she was Republican leader of the Wisconsin Senate, the first woman in the state's history to serve in a major elective leadership post. Last fall, in losing a close race for the U.S. Senate to Democrat Herbert Kohl, she attracted President Bush's attention.

As a state legislator, Engeleiter was known as an outspoken protector of small-business interests. Her viewpoint was felt especially on tax issues. "We in Wisconsin kept a low capital-gains tax rate when the federal rate went up, and we find the lower rate has really stimulated economic growth in that state," she says. She also participated in a successful drive to eliminate state taxes on machinery and equipment.

"I've philosophically always believed that the number of state or federal mandates on businesses of all sizes should be kept as low as possible," she adds. "Tort reform—and the whole issue of product liability—is another area which I feel is extremely important and which I have been involved in."

What are her goals at SBA?

First, Engeleiter says, she wants to review all current SBA programs to "try and see to it that services are delivered in an efficient fashion. I believe it is important to eliminate the amount of waiting time and red tape involved in getting into SBA programming, particularly the loan programs, and I'll be doing whatever is possible to try and solve that problem." She hopes to avoid a repetition of the situation that developed earlier this year when the agency's most popular guaranteed-loan program, the so-called 7(A) program, was oversold, resulting in demand from eligible small-business owners that far exceeded available funds.

PHOTO: T. MICHAEL KEZA

Susan Engeleiter, the new chief at SBA, sees herself as a "forceful advocate of small businesses" and intends to keep the agency "independent and strong."

She says another major SBA responsibility is "to see to it that programs are well publicized to small-business people around the country, whether they live in rural areas or urban areas."

Engeleiter says she shares the concern of some members of Congress that SBA programs and services should be made more widely available in rural areas. "I want to be careful not to generalize, but there are some programs that have more emphasis on urban areas and less on participation in rural areas. I think that is important in light of many of the problems our small communities are having, for a whole variety of reasons, in competing for jobs."

The encouragement of more small firms owned by women and minorities, she says, is "an interest that [the president] has communicated to me.

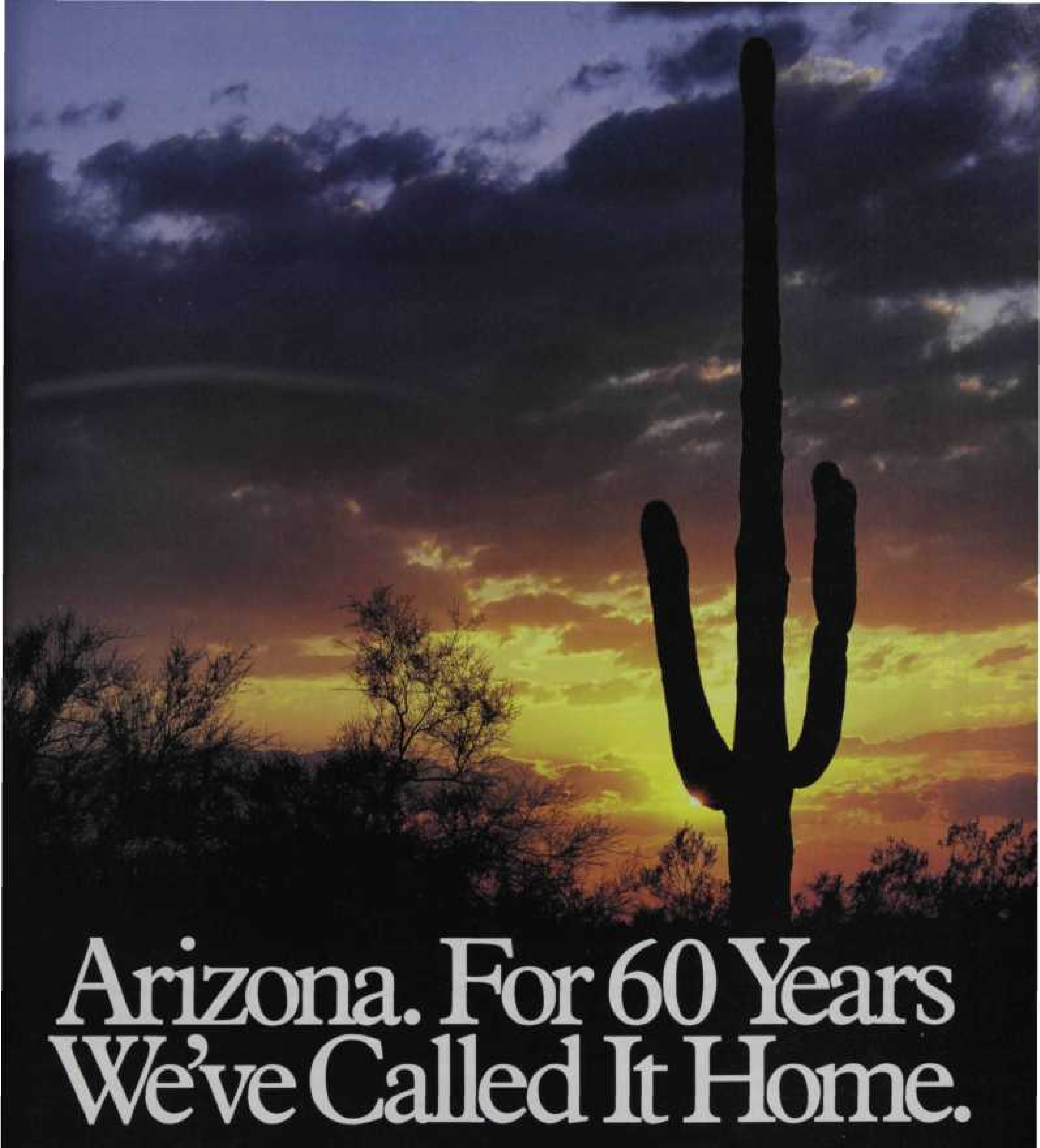
"There is a variety of ways to assist in that effort. For instance, if you look at our national advisory council for this agency, its vast majority of participants are men. There are roughly 130 members, and the list I've seen has 25 women on it. That is not reflecting the business community at large."

Engeleiter promises to expand the SBA's mentor program, which pairs successful women business executives with women starting their own companies, and she points out that Congress last year instructed the SBA to carry out several initiatives to assist women-owned businesses.

Congress also expanded the SBA's 8(A) program for socially and economically disadvantaged small businesses, and it solidified the program's directorship by changing it from a political position to a career position.

In weeks ahead, Engeleiter will be working with the Office of Management and Budget to shape SBA's proposed budget for the next fiscal year. She hints that the new budget may signal considerable change for the agency. "There's a lot of flux around it, a lot of flexibility," she says.

Unlike agency heads who often complain of having to defend their programs against hard-nosed budget slashers at OMB, Engeleiter says her dealing with the budget office so far has been cordial. "I just got back from there," she tells an office visitor, "and, look, no black-and-blue marks." NB



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More Insurance For Smaller Firms

The commercial-insurance buyer is finding coverage more available and affordable now that the insurance industry's turmoil has eased.

By Phil Zinkewicz

The welcome news for small and medium-sized companies buying commercial insurance is that most types of property and casualty coverage are more available and more affordable, largely because the turmoil of the past decade in the property/casualty insurance business appears to have eased.

The early 1980s saw intense sales competition among insurers seeking income that would enable them to take advantage of investment opportunities. With a turbulent tort system producing unprecedented claims payouts, insurance companies' income from those investments could not move their bottom lines into the black. Premiums went up, some types of coverage became unavailable at any price, and all commercial buyers of insurance were affected.

Small and midsized companies were hit the hardest. Such firms generally cannot afford the services of risk managers or large insurance brokers to help negotiate better deals, and many lack the expertise to experiment with self-insurance alternatives.

Today, the small and midsized commercial-insurance buyer is in a different position, largely because the insurance industry increasingly is recognizing that this segment of the market is more attractive to court and retain than ever before. Furthermore, this middle market now has alternatives for dealing with the vagaries of the industry's cycles.

"Although the middle market was hit hardest during 1984-85, every major insurer wants to write this business today," says Robert K. Meyers, vice president of the middle-market department at the international insurance brokerage firm of Johnson & Higgins, in New York. He adds that competition for this market is increasing.

Ronald K. Smith, vice president in charge of commercial accounts marketing for Travelers Corp., says prices began leveling off and then dropping for middle-market risks soon after the disastrous years of the mid-1980s. "We began seeing the first signs of market softening in the first quarter of 1987," he says. "By the first quarter of 1989, we were around to our third round of rate decreases."

Phil Zinkewicz is a free-lance writer in New York.

PHOTO: © WAYNE SORCE

Robert K. Meyers of Johnson & Higgins sees increasing competition.

James E. Mummey, second vice president for the agency marketing group for Travelers, says the same holds true for smaller commercial risks. "The commercial market is competitive. Traditional coverages are both available and affordable. We do not feel the presence of cutthroat competition in this segment of the market, but certainly plenty of fair competition."

Some industry experts who agree that the insurance situation is less unpredictable for middle-market risks than it was four or five years ago are nonetheless inclined to attribute the development to market adjustments rather than to overcompetition.

Travelers' James E. Mummey says small firms find coverage available.

PHOTO: © DOM FURORE

R.C. Riley, president of the Peel Holland Inc. insurance agency, based in Benton, Ky., and vice president of the Independent Insurance Agents of America (IIAA), says: "I think that, during the mid-1980s, insurers overreacted somewhat. . . . What we're seeing now is a correction to that overreaction."

That sentiment was echoed by Lawrence E. Hite, president of the IIAA and head of Insurance Systems Inc., an agency in Ona, W.Va. "It is not necessarily a soft market in a crazy sense the way it was in the early '80s, but overall carriers are realizing that it is better to keep this business on their accounts than to move away from it as they have done in the past—only to go through the costly process of acquiring business later on."

One major insurer pursuing the middle-market commercial risk is Allstate, which serves small and midsized companies through a subsidiary, Northbrook Property and Casualty, by way of independent agents. "Allstate has a long-term commitment to the commercial-insurance business because of its potential for profit," says John Larson, assistant vice president for planning for Allstate Business Insurance. "Midsized businesses constitute a large part of the overall commercial market and generate much of the available premium. The midsized market is an important part of our strategy of satisfying a wide range of customer needs."

Although the middle market is important to today's property/casualty insurance industry, the competition is selective. "The middle commercial-lines market on the property side is pretty soft today," says David A. Kocher, president of the commercial-insurance division of Aetna Life & Casualty Co. "But some of the casualty business is still troublesome, such as liability in the asbestos area and workers' compensation coverages."

Despite more favorable results since the mid-1980s, insurers are still suffering from the rising number of lawsuits, higher jury awards, and liberal court interpretations of liability-insurance contracts. In areas where insurers are

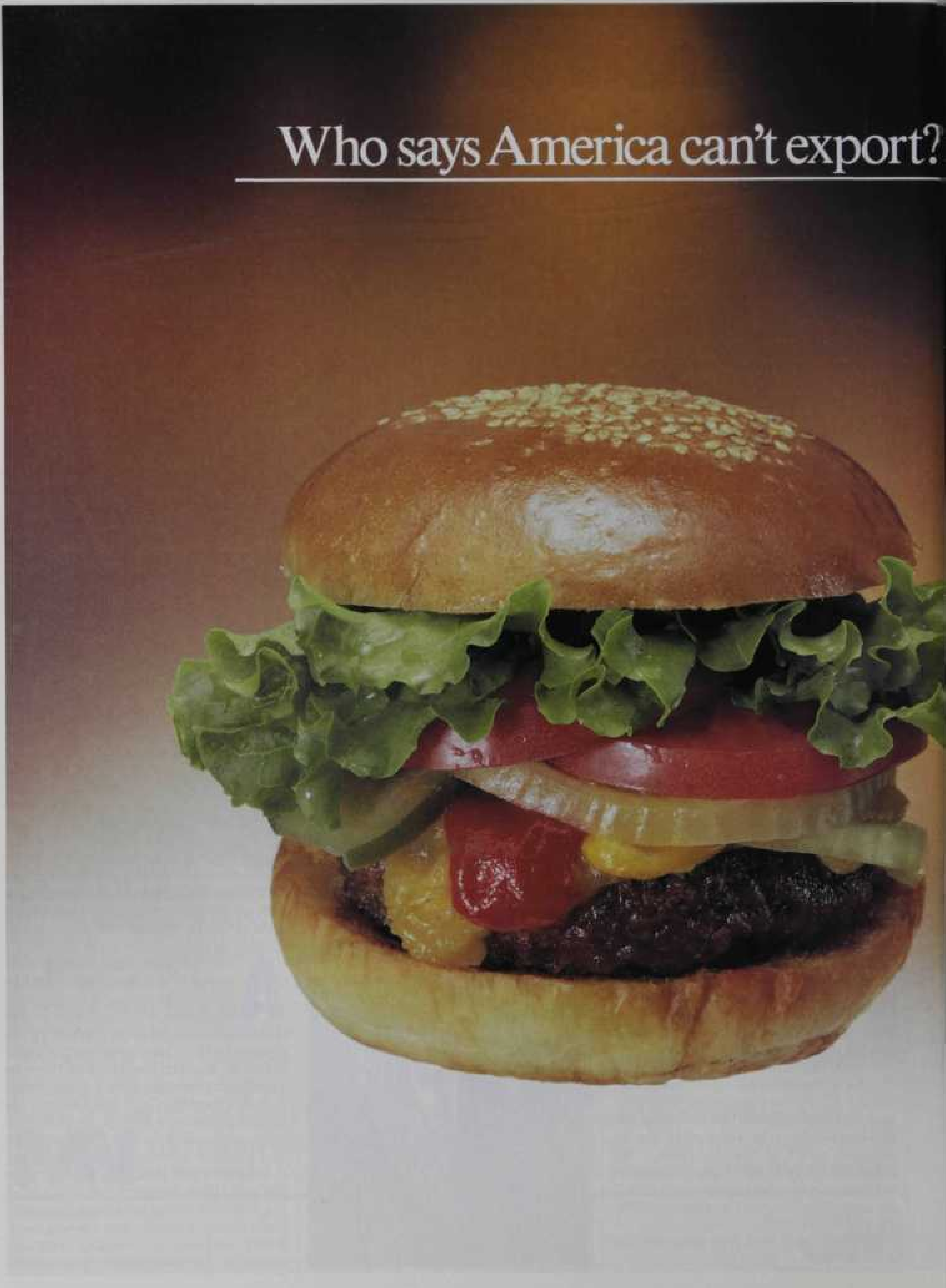

Who says America can't export?

PHOTO: ©GARY TRUMAN—BLACK STAR

Lawrence Hite: "Not necessarily a soft market in a crazy sense."

less certain about risks—in asbestos, workers' compensation, and pollution, among others—the market for coverage is still difficult. When separate companies share similar risks, however, they may find they have other options, namely through formation of risk-retention groups or purchasing groups.

Risk-Retention Groups

Primarily because of market difficulties on the casualty side of the insurance business, Congress gave commercial-insurance risks an alternative to the traditional insurance market by passing the Risk Retention Act of 1986. Under this law, companies that are exposed to similar risks can band together to form their own self-insurance program.

According to many insurance executives, risk-retention groups (RRGs) have had little impact on the commercial insurance business. The reason, they say, is the softness of today's commercial-lines market. RRGs have been formed, however, to provide liability protection for those hard-to-place risk areas such as airport operators, oral and maxillofacial surgeons, architects and engineers, and liquor wholesalers and retailers.

One problem with the RRG movement is the lack of regulatory uniformity. Some states' guidelines are stricter than others' on forming, operating, and taxing RRGs.

Purchasing Groups

The same law that brought about RRGs also provided the middle commercial-lines market with the concept of purchasing groups. Purchasing groups are really an extension of the old "safety group" concept. Here, companies with similar risk exposures band together, not to self-insure as with an RRG, but

PHOTO: AETNA LIFE & CASUALTY

Aetna's David Kocher: Some casualty business "is still troublesome."

to purchase insurance from a carrier. The success of these purchasing groups will depend upon the ability of the groups to control those exposures and to minimize losses.

Just as with RRGs, the number of purchasing groups has not skyrocketed, primarily because of the competitive commercial-lines market. In addition, there is confusion over how much regulatory supervision is necessary, especially in determining the stability of the carrier involved. NB

Prepare Now For The Next Renewal

(Companies seeking the most effective and economical insurance coverage work at it all year long, not just at renewal time. In this article, Tillinghast, a management-consulting and actuarial firm in Boston, gives advice on achieving coverage goals.)

Let's start with the day after you've awarded your insurance program to one or more brokers.

During that renewal, you have probably negotiated a number of last-minute changes in coverage, and the broker has probably made some last-minute promises about service. First you should make a list of those changes and promises and send it to your broker, asking for a letter confirming all points. Try to do this before the inception date of the new policies, particularly if there are areas of uncertainty.

When your policies arrive, make sure they conform to your understanding of the coverages as they were described to you.

It is extremely rare for a perfect policy to be issued on the first try. You may not be an insurance technician, but you are a party to the contract, and you will be expected to live by it.

So it is much better to clear up any ambiguities or misunderstandings immediately than to try to do so after a major claim.

You can begin immediately to prepare for next year's procurement effort. Compare notes with other business people. Share as much data as possible about property and auto-insurance rates, limits of liability carried, insurer and broker service standards, and claims-adjusting practices. This is without a doubt the best way to get a feel for changing market conditions, and it can help you evaluate your new program.

Keeping up-to-date on your claims is one of the easiest, most important, and most practical steps that you can take during these months between renewals.

The best loss data for self-evaluation and for remarketing purposes include the causes and locations of the accidents. This is especially important for workers' compensation, auto, and general liability, but it is relevant also for any policy with frequent or large losses. You will need updated loss runs for up to five years.

Agents and brokers seeking your account will contact you cold throughout the year. Take a few minutes to listen and to ask questions. If handled correctly, these calls can be excellent sources of market and industry intelligence.

Most important, keep track of all changes in your own operations. Any change can affect both your coverage needs and the insurance-procurement strategy best for you.

Renewing the same coverages in the same way year after year makes sense only if your business is stagnant. Take your pulse regularly, and consider how much each change might affect insurance procurement.

The Industry's Next Downturn

Insurers today are enjoying profits, and markets generally are not restrictive.

But there are caution signs. Insurance profits are already deteriorating, and it is likely that in the next year they will get worse—meaning market retractions.

Standard & Poor's Insurance Rating Service expects the industry this year will see continued deterioration in underwriting results and net income.

Says Standard & Poor's: "Insurers' pretax underwriting losses totaled $8.4 billion for the first nine months of 1988, compared with $7.4 billion for the comparable 1987 period, according to the Insurance Services Office. Net investment gains, which include realized capital gains, were up slightly to $21.6 billion from $21.3 billion. Thus, pretax income declined 5 percent. However, due to a 16-percent rise in income taxes to $2.9 billion from $2.5 billion, net income after taxes declined to $10.3 billion from $11.4 billion, a fall of 9.6 percent."

Standard & Poor's says 1987 was a cyclical peak for the industry in earnings and growth. S&P forecasts that the next downturn will be more severe than some industry seers predict.

A Rate-Cut Law's Distant Reach

When California voters last November approved the controversial Proposition 103, which cuts insurance rates, there were predictions that it would dramatically affect the nation's automobile-insurance market.

Few considered the ramifications of that vote on the U.S. commercial-insurance market.

But so severe are the possible repercussions of Proposition 103 that the Risk and Insurance Management Society (RIMS), an organization representing more than 4,100 corporate, governmental, and nonprofit consumers of insurance, recently called the passage of the measure a "simplistic and unwise answer to a complex problem."

Proposition 103 calls for a rollback in insurance rates to 20 percent below 1987 levels. The initiative, promoted by consumer activists, also calls for the elimination of the insurance industry's antitrust exemption.

In a statement, RIMS says: "The principal issue for California voters was certainly the rollback in automobile-insurance rates. Lost in the debate was the fact that the rollback applies to all property-casualty lines except workers' compensation, reinsurance, and life, health, disability, marine, employers' liability, title, and mortgage insurance.

"The managements of insurance companies have a responsibility to their shareholders to make a profit and to their policyholders to maintain a high level of solvency.

"With the passage of Proposition 103, Best's, an objective rating service of insurance-company solvency, stated they may have to downgrade certain insurers because of the rate rollback, as might Standard & Poor's on claims-paying ability. Since such downgrading can have a negative impact on the attractiveness of an insurer's stock to potential investors, carriers will act to prevent it from happening."

RIMS envisions insurers taking actions such as pulling out of certain markets, using premium increases in other states to subsidize losses in California, and using premiums from lines not included in the rollbacks to pay for losses in lines affected by the rollbacks.

The elimination of the insurance industry's antitrust exemption also creates problems, according to RIMS. Currently, there are attempts in other states and at the federal level to eliminate the exemption, which allows insurers to collect loss experience for the purpose of setting advisory rates.

Industry observers contend the elimination of the exemption would prevent insurers from gathering that data, which would leave smaller insurers without the information they need to protect their financial security.

RIMS says Proposition 103 "is more likely to hurt policyholders in the long run than to alleviate their burdens."

Family Business

Give Your Daughter A Chance

By Sharon Nelton

Our cover story last month on women business owners suggests a valuable message to family-business owners: Take the women in your family seriously.

As our story pointed out, Debra Benditz left her family's oil-pipe distribution company when she learned that her brothers would be favored over her for advancement into management. With $5,000 in savings, she started a competing company, L-Leighty Tubular Products, in Houston. Her firm grosses $1 million a year.

S. Diane Graham might have found a warmer welcome at Stratco

PHOTO: TING CHIAO

Inc., a Kansas City, Mo., chemical-engineering company, where her father was majority shareholder. But he died when she was 24. She joined the company anyhow, determined to carry on her father's dreams for Stratco, and she became the only family member working in the firm. Since Graham took over in 1981, annual sales have grown to $10 million from $1 million.

Such stories make all the more meaningful to me the memory I have of a very puzzled father at a recent family-business conference. In a small discussion group, he said that the smartest of his children—the daughter—had gone to work for a competitor. She was better than her brothers, he admitted, but the brothers were the ones being groomed for leadership. Others in the discussion group urged him to persuade her to join his company by offering her real opportunity, but that idea seemed to be more than he could bear.

Without a doubt, advancing your daughters can stir rumblings of discontent in a family, or at least confusion. As Louis B. Barnes of Harvard Business School pointed out in an issue of the *Family Business Review* last year: "Throughout human history, parents have traditionally used hierarchy and primogeniture to set the rules for younger generational succession."

When a daughter or younger brother becomes chief executive officer, Barnes says, it upsets the family's hierarchy.

"Daughters seem to face the most complex challenges," Barnes wrote. "They may find doubt and skepticism coming both from parents and from siblings. Doubting fathers seem to give a daughter a much harder time when she accedes to power than they do to younger sons."

What helps, he suggested, is to understand that structure and tradition create the conflict and stress that a family feels when it's undergoing a change as radical as having a daughter rise to power.

If such understanding gives a family the grit to go against tradition, we're for it. If your daughter is the one most able to take on leadership of the family business, give her a chance. She may be the best bet for carrying on your dream.

Sharon Nelton, a Nation's Business *senior editor, specializes in writing about family firms.*

Retired Dads: A Real Resource

By John L. Ward and Laurel S. Sorenson

At 83 years of age, Oscar Stempler is chairman emeritus of Textilease Corp., the industrial-uniform leasing business he helped create in Beltsville, Md.

But don't let Stempler's age or title fool you into thinking he is inactive.

Stempler goes to the office regularly. He is invited to sit in on meetings, raise questions, and contribute ideas. On Textilease's 40th anniversary, he played a key role in the company's marketing campaign.

In many family businesses, such activities would suggest a patriarch who has refused to let go. But not at Textilease. Son Gerald, now chairman, affirms the existence of a delicate balance in which he and the company's president, Regis Larkin, stay in charge but also count on the senior Stempler's contribution.

Citing his father's financial acumen

Though retired as chairman, Oscar Stempler, seated, is still a valued player at Textilease Corp., a family business in Beltsville, Md. His

PHOTO: T. MICHAEL KEZA

The neglected relatives in a family business can be the founding father in retirement years and the daughters who try to climb the leadership ladder. Here are suggestions for helping both contribute to the firm, plus a test of your skills in negotiating family-business disputes.

as well as his ability to play the role of corporate figurehead, the younger Stempler, 57, says: "He has valuable talents. Why waste them?"

That's a question every family business should ask as the outgoing leader nears retirement.

And that's because in the right situation, these retiring entrepreneurs are irreplaceable resources. Taking advantage of their skills strengthens the company. The entrepreneur feels fulfilled, too.

What can they typically offer? Community contacts. Industry contacts. Knowledge of the company's history and business nuances. The ability to act as corporate symbols. A fondness for speaking, or writing, or both. Expertise in a particular dimension of the business. Ownership of the name that's on the door.

Roles that reflect these attributes are sometimes best left general, as are Stempler's. Others are more specific.

Either way, the job should be structured to avoid classic pitfalls. A reluctant retiree should not be able to use it as an avenue of return, for example, or as a platform for criticizing the new leaders.

For their part, offspring might view the job as a chance to just "keep Dad busy," or they could burden him with undue responsibilities.

Here's a quick test that can indicate whether difficulties lie ahead. The retiring family-business leader who answers no to the following questions is likely to avoid such problems:

- Do you make corporate policy decisions?
- Do you have a title of real authority?
- Do you feel left out?

And the answer should be yes for another group of questions:

- Do you feel comfortable coming and going as you wish?
- Are you asked your opinion?
- Can you give it gracefully, so that it sounds like an idea instead of an order?

Structuring such a post may be challenging. But the benefits are worth it—not only for the company but also for the people involved.

"I enjoy the business," explains Oscar Stempler of his decision to step back and still stay active. "If you retire completely, you are a dead issue."

ideas are welcomed by company executives such as controller Michael Flynn, left, and Boyd Stagmer, vice president for corporate finance.

John L. Ward is the Ralph Marotta professor of private enterprise at Loyola University of Chicago and a consultant to family business. Laurel S. Sorenson is a Chicago-based writer. They wrote the book Keeping the Family Business Healthy *(Jossey-Bass, San Francisco).*

Active Roles For Retirement Years

The outgoing entrepreneur who remains active can fulfill one or more roles. A few examples:

- Ombudsman. Serves as the company's eyes and ears to the needs, concerns, and feelings of employees and of outsiders such as customers and suppliers.
- Corporate historian. Writes the family business's history or employee newsletter.
- Trainer. Orients new employees, develops corporate seminars.
- Philanthropist and civic leader. Encourages community economic development or runs the corporate foundation.
- Director of employee relations. Develops special events for recognizing employees.
- Business developer. Manages the company's acquisition program.

Mark Your Calendar

June 14-16, Cleveland

"Managing Succession Without Conflict," a seminar on leadership transition in the family firm. For business owners, spouses, successors, and key managers. Write or call the Center for Family Business, 5862 Mayfield Road, P.O. Box 24268, Cleveland, Ohio 44124; (216) 442-0800.

July 9-12, Philadelphia

"Chief Executive and Senior Officers of Family-Held Businesses," a seminar designed to help owners and managers deal with the complex demands of family firms. Write or call the Family Business Division, Sol C. Snider Entrepreneurial Center, The Wharton School, University of Pennsylvania, 426 Vance Hall, 3733 Spruce St., Philadelphia, Pa. 19104; (215) 898-4470.

Turning Arguments Into Agreements

By Anne L. Matz and Milton Matz

For their companies to survive, the principal members of family firms must reach agreement on many difficult issues. Selecting successors, drawing up rules for letting family members work in the company, determining business strategies—these are just some of the areas for negotiation that arise in a family firm. The question is not whether there are disagreements, but whether disagreements are negotiated successfully.

You can use the following inventory to help assess your negotiating ability and to identify areas where you might need improvement. If you score low, consider getting training at your local community college or university, or signing up for a seminar on negotiation or conflict resolution through your trade or professional association.

And remember that in a family business, doing what is right for the firm is not enough. You must get agreement that works for both the family and the firm.

To Join The Research

Anne L. Matz and Milton Matz, managing partners of Matz Associates, provide conflict-resolution services and negotiation seminars for family businesses. If you would like to participate in their research on family-business negotiation styles by filling out a longer inventory, send a stamped, self-addressed envelope to Matz Associates, 3609 Park East, Cleveland, Ohio 44122.

Negotiation Skills Inventory

Circle the response that most closely describes how you behave with family members in your company.

1. A family member says something that makes no sense to you. How do you respond?
- **A.** "That makes no sense to me!"
- **B.** "Would you repeat that, please?"
- **C.** Just let that person keep on talking.

2. A family colleague angrily says, "Why, of all the people in the world, do I have to work with you?" How would you reply?
- **A.** "You owe me an apology!"
- **B.** Say nothing.
- **C.** "How did I offend you?"

3. You are asked to do an important project on your day off. What would you do?
- **A.** Do as requested.
- **B.** Bring the matter to the attention of others, and gripe.
- **C.** Ask if another day would work as well.

4. A family colleague chronically comes to work an hour later than agreed upon. What would you say?
- **A.** Nothing.
- **B.** "You're not keeping your word about starting at 8 o'clock!"
- **C.** "We need to talk again about our agreement about the time we start in the morning."

5. You differ with a family associate on an important issue. What words would you use to establish your negotiating stance?
- **A.** "I have no room to budge on this issue."
- **B.** "How can we meet your goals and mine?"
- **C.** "I'd be willing to compromise if you would."

6. How do you search for solutions to disagreements?
- **A.** Primarily by finding out more about what we each want, and why.
- **B.** Primarily by finding out what others have done in similar situations.
- **C.** Primarily by talking with my advisers.

7. After an initial discussion, a mutually acceptable solution to an important issue is not found. What are you likely to do?
- **A.** Compromise.
- **B.** Get upset.
- **C.** Suggest continued conversations.

8. For no apparent reason, a family member becomes angry with you. What would be your initial assumption?
- **A.** It's the other person's problem.
- **B.** It must be something I did or said.
- **C.** The matter is best not talked about.

9. In the heat of negotiation, we all unintentionally hurt associates' feelings by our words or manner from time to time. How do you find out if they don't tell you?
- **A.** By observing unexpected signs of discomfort on the faces of family members.
- **B.** By observing myself as I talk and listen.
- **C.** I am unable to find out, or I don't try.

10. You realize that you have unintentionally hurt someone's feelings. What do you do?
- **A.** I apologize for my statement or manner.
- **B.** I act as if it didn't happen.
- **C.** I make up a white lie to cover it.

Scoring

Give yourself one point for each correct answer.

1. B. A skillful negotiator encourages repetitions to clarify the other person's thought.
2. C. Anger generally is dealt with best by inquiring about its cause.
3. C. Expressing your concern for both the project and your day off sets the stage for a balanced dialogue.
4. C. To renegotiate an agreement, focus on the issue without attacking the individual.
5. B. The best negotiator works to satisfy the interests of all.
6. A. Getting more information increases the chances for finding creative solutions.
7. C. Continued conversations are necessary to search for an optimal solution.
8. B. It is best initially to assume you did something to cause anger and to check out that possibility.
9. A. Unexpected facial reactions may indicate that feelings have been hurt. A useful inquiry to clear the air is: "Did I say or do something to hurt your feelings?"
10. A. A clear, frank apology is always in order.

Your Level Of Negotiating Skills:

0-5—Beginner
6-7—Intermediate
8-9—Advanced
10—Optimum

Excerpted with permission from The Family Business Negotiation Skills Inventory, by Anne L. Matz, M.A., and Milton Matz, Ph.D.

MANAGING YOUR BUSINESS

AIDS Concerns For Business

Misinformation makes it hard for small-business people to know what to do about AIDS, but some directions are becoming clearer.

By Ira D. Singer

As the number of AIDS cases continues to grow, so do fears and confusion about the fatal disease. For small-business owners and managers, the concerns go beyond questions of whether it's contagious in the workplace and whether it can be cured. Those who run companies need to know what they can and must do if an employee gets the illness, how to prevent discriminatory practices in the workplace, and how their employee-benefits plans will be affected.

Misinformation surrounding the illness can make it hard for business people to know what to do when it becomes known that someone on the payroll has AIDS. Nonetheless, as AIDS-related issues come into sharper focus, some guidelines and directions are beginning to take shape.

Following are some of the workplace concerns, health-benefits issues, and education resources that have emerged with the spread of AIDS.

Workplace Concerns

Companies generally have been slow to respond to the AIDS crisis, according to a comprehensive study of the impact of AIDS on small businesses in Philadelphia, conducted by the Philadelphia Commission on AIDS and the Greater Philadelphia Chamber of Commerce. Mark Smith, executive director of the commission, said: "These data are consistent with just about every other study on AIDS in the workplace. They tell us that business leaders are no better informed about AIDS than anyone else. People do not want to believe they will actually confront someone with AIDS."

Only 4 percent of companies surveyed for the study have policies on AIDS, and 68 percent have no policy at all for employees infected with the human immunodeficiency virus (HIV) that causes the deadly disease. (About 28 percent consider AIDS to be part of a catastrophic-illness policy, but few have put the policies in writing.)

The study found that 75 percent of the companies know little or nothing about their legal obligations to employees with AIDS, almost 40 percent said they would limit contact between employees with AIDS and co-workers, 16 percent would encourage workers with AIDS or with HIV to resign, and 30 percent would tell co-workers confidential information about workers with AIDS without their consent.

Ira D. Singer is a health-care consultant and president of NOVA Health-Care Group, in McLean, Va.

"Educated workers will try to act decently and fairly" when they learn of an AIDS case in the company, says B.J. Stiles, head of the National Leadership Coalition on AIDS.

PHOTO: T. MICHAEL KEZA

Companies will find it impossible to ignore the illness, however, as its costs and its prevalence hit home.

The federal government's Centers for Disease Control estimates that 1 million to 1.5 million Americans harbor the AIDS virus. By 1992, approximately 365,000 Americans will have been diagnosed as having AIDS, and 263,000 of them will have died. Through this past March, nearly 91,000 AIDS cases had been reported in the U.S., and more than 52,000 people had died of AIDS.

The disease, currently concentrated in metropolitan areas, is beginning to spread to smaller communities. "We are starting to see what is becoming a series of local epidemics that are now beginning to affect more members of the small-business world," says Smith. "It is clearly going to affect them. Close to 50 percent of the people in Philadelphia who contracted AIDS last year were employed."

Frank Swain, chief counsel for advocacy at the U.S. Small Business Administration, says the impact of AIDS could be dramatic for small businesses. "Because of their scale and their organization," he says, "small firms do not have the flexibility and often [the] capacity to respond to external legal and financial factors. And unlike large firms, small business cannot afford extensive employee benefits, human-resource personnel, legal counsel, and the means to handle employee support, public relations, and education. These factors place a serious strain on small firms' willingness to understand the impact of AIDS."

B.J. Stiles, president of the National Leadership Coalition on AIDS, a consortium of public and private-sector organizations and leaders concerned with improving the responses to AIDS by business and labor, says: "Many employers will procrastinate and won't do anything until an actual case of HIV infection threatens some part of their life. But when finally faced with an AIDS case, it is certain that educated workers will try to act decently and fairly."

Health Benefits

Small-business owners are concerned about the possible effects of AIDS on health-care and employee-benefits costs, and they suspect that they will bear the brunt of those costs.

Health-insurance premiums for small businesses are already 10 to 40 percent higher than those for large firms. The National Association of Health Underwriters shows that companies with fewer than 50 employees are averaging rate increases of 30 percent—some are as high as 100 percent. "These escalating rates are penalizing small businesses and are forcing many to cut back on health-care benefits," says SBA's Swain, adding that "the AIDS scare is not letting them rest easier."

Robert Waldron, a spokesman for the Health Insurance Association of America, says: "Everyone is having difficulties understanding current cost and financing patterns and predicting what this will mean for health-insurance rates. Health-care costs are escalating

as a result of health-care inflation. The AIDS impact won't strike until later, and we won't have a very precise idea of how much this will contribute to costs."

Health economist Warren Greenberg, an associate professor of health-services administration at George Washington University, in Washington, says, "We should be cautious as to whether or not [AIDS] will precipitate premium increases in the future." He says a factor that could account for negligible premium boosts attributable to the disease is a certain shift in the profiles of newer AIDS cases: AIDS is affecting more people who are unemployed, underinsured, or on public assistance. This in turn, he says, indicates there has been little impact on health plans for most companies.

AIDS claims account for about 1 percent of the total life, accident, and health claims tallied by insurers, according to industry statistics.

What the AIDS crisis does suggest, Greenberg says, is that "if employers don't wind up paying higher insurance premiums through their AIDS experience, then taxpayers will pay for care of the growing numbers of AIDS patients on Medicaid and public assistance through their local, state, and federal tax dollars."

And those costs are staggering. The cost of direct medical care for the 54,000 new AIDS cases expected to be diagnosed this year alone will total $3.5 billion over the patients' lifetimes, according to recent reports from the National Center for Health Services Research and Health Technology Assessment. Figures for later years are similarly worrisome: $6 billion for the 91,000 new cases expected in 1991, and $7.5 billion for the 114,000 new cases in 1992.

Boston-area companies collaborate on AIDS issues through the New England Corporate Consortium for AIDS Education. Shown here in a meeting are, from left, consortium chairman Paul Ross of Digital Equipment Corp., Andrea Dudley of New England Telephone, Louise Faucher of daka Inc., and K. Peter Alduino of the Bank of New England.

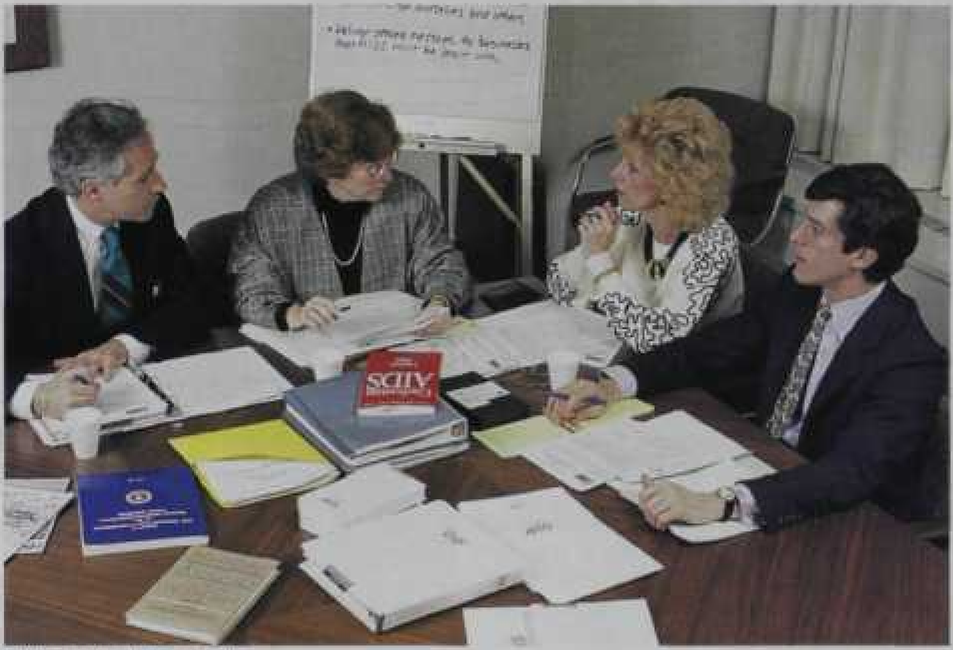


PHOTO: ©NICK FRIEDMAN—BLACK STAR

Educational Resources

Many businesses and business groups are using education to counter unfounded fears, prejudice, and confusion that accompany AIDS. Paul Ross, manager of the AIDS Program Office at Digital Equipment Corp., in Concord, Mass., says: "An educational program that is sensitive to the organizational culture of the company is the fundamental vehicle for communicating to the work force factual information about HIV infection. This will help to clarify perceptions of a worker's own risk behavior, demystify the disease, and manage unwarranted fears."

Without more widespread education about AIDS, it appears that those with the disease will continue to experience discrimination through adverse decisions about hiring, firing, promotion, and conditions of employment.

Programs that address the scientific, psychological, social, legal, and human-resource issues concerning AIDS can

Ten Principles For The Workplace

The Citizens Commission on AIDS for New York City and Northern New Jersey has formulated guidelines to help employers deal with AIDS. The recommendations, "Responding to AIDS: Ten Principles for the Workplace," have been endorsed by more than 370 companies and organizations. The commission's executive director, Carol Levine, calls the principles a "bill of rights" regarding the illness. Here are their essential points:

1. People with AIDS or HIV infection are entitled to the same rights and opportunities as people with other serious or life-threatening illnesses.
2. Employment policies must, at a minimum, comply with federal, state, and local laws and regulations.
3. Employment policies should be based on the scientific and epidemiological evidence that people with AIDS or HIV infection do not pose a risk of transmission of the virus to co-workers through ordinary workplace contact.
4. The highest levels of management and union leadership should unequivocally endorse nondiscriminatory employment policies and educational programs about AIDS.
5. Employers and unions should communicate their support of these policies to workers in simple, clear, and unambiguous terms.
6. Employers should provide employees with sensitive, accurate, and up-to-date education about risk reduction in their personal lives.
7. Employers have a duty to protect the confidentiality of employees' medical information.
8. To prevent work disruption and rejection by co-workers of an employee with AIDS or HIV infection, employers and unions should undertake education for all employees before such an incident occurs and as needed thereafter.
9. Employers should not require HIV screening as part of pre-employment or general workplace physical examinations.
10. In occupational settings where there may be a potential risk of exposure to HIV, such as in health-care facilities, employers should implement universal precautions, offer specific and ongoing education, and provide the necessary protective equipment to reinforce appropriate infection-control procedures.

minimize workplace disruptions, preserve employee morale, and sidetrack discriminatory behavior.

While there are many educational resources such as videos, manuals, and seminars related to AIDS in the workplace, many of them may not be sufficiently accessible to—or affordable for—smaller companies.

Business groups are moving to fill the void, however. The U.S. Chamber of Commerce has offered advice to business on dealing with AIDS in the workplace. The Chamber recently published *AIDS: An Employer's Guidebook*, which covers AIDS-related issues for use by business owners. (See the box below.) The American Red Cross, which already has a nationally disseminated workplace program on AIDS, has formed a small-business committee to determine what still needs to be done to reach small companies.

Smaller firms may also find guidance within a new movement spawned by private-sector leaders nationwide who are forming local and regional coalitions and task forces to help employers meet the AIDS-education needs of employees. Most sponsor seminars, provide consultation, and render technical assistance to any company seeking help.

In addition, some regional coalitions offer various other educational services. The Citizens Commission on AIDS, serving the AIDS epicenter of New York City and northern New Jersey, developed a helpful framework for businesses considering workplace policies on AIDS called "Responding to AIDS: Ten Principles for the Workplace." (See the box on Page 76.) The Philadelphia Commission on AIDS, which conducted the survey of the impact of AIDS on Philadelphia business people, also developed an inexpensive educational workbook. The Seattle-based Washington Employers' AIDS Prevention Alliance publishes a quarterly newsletter. And the New England Corporate Consortium for AIDS Education has created an educational package containing a videotape and several instructional manuals. The package is expected to sell for under $200. ■

For More Information

Organizations

National AIDS Information Clearinghouse, P.O. Box 6003, Rockville, Md. 20850; (301) 762-5111.

Citizens Commission on AIDS for New York City and Northern New Jersey. Carol Levine, Executive Director, 121 Avenue of the Americas, Sixth Floor, New York, N.Y. 10013; (212) 925-5290.

New England Corporate Consortium for AIDS Education. Paul Ross, Manager, AIDS Program Office, Digital Equipment Corp., 150 Coulter Drive, Concord, Mass. 01742; (508) 264-1418.

Philadelphia Commission on AIDS. Jennifer Conway, Leonard Davis Institute of Health Economics, Univ. of Pennsylvania, 3641 Locust Walk, Philadelphia, Pa. 19104-6218; (215) 898-4750.

The Small Business Response to AIDS Project. Ira D. Singer, President, NOVA HealthCare Group, 7661 Provincial Drive, Suite 209, McLean, Va. 22102; (703) 448-0890.

Washington Employers' AIDS Prevention Alliance. Rick Vance, Project Coordinator, 521 Wall St., Seattle, Wash. 98121; (206) 448-4326.

Washington Metropolitan Area Business Leadership Task Force on AIDS. Lisa Bollweg, Staff Director, Community Foundation of Greater Washington, 1002 Wisconsin Ave., N.W., Washington, D.C. 20007; (202) 338-8993.

Publications

AIDS: An Employer's Guidebook. U.S. Chamber of Commerce, Publications Fulfillment, 1615 H Street, N.W., Washington, D.C. 20062.

AIDS: Corporate America Responds. Allstate Insurance Co., Corporate Relations, Allstate Plaza, Northbrook, Ill. 60062.

AIDS Education: A Guide for Business. American Foundation for AIDS Research, 1515 Broadway, Suite 3601, New York, N.Y. 10036-8901.

AIDS Prevention Program in the Workplace. American Red Cross AIDS Education Program, National Headquarters, 17th and D Streets, N.W., Washington, D.C. 20006.

Business and Labor Speak Out on AIDS. National Leadership Coalition on AIDS, 1150 17th Street, N.W., Suite 202, Washington, D.C. 20036.

What Businesses Really Need to Know About AIDS. United Way of America, 701 N. Fairfax St., Alexandria, Va. 22314.

MANAGING YOUR BUSINESS

Listen Carefully

Effective listening can be used in business to boost morale, improve productivity, sell, teach, inform, or achieve other goals.

By Tom W. Harris

Consultant Germaine Knapp wants you to hear something. "Effective listening—we call it power listening—is one of the strongest assets in professional life today," she says. "Too few of us take advantage of it, but all of us could. There are dozens of field-proven techniques and tactics for applying the power of listening, and they get results."

Knapp is president of Wordsmart Inc., a consulting and training firm in Rochester, N.Y. Her clients include Xerox and Eastman Kodak as well as banks, hospitals, manufacturers, and colleges. Training in listening skills is one of Knapp's specialties.

ILLUSTRATION: CAMERON GERLACH

Knapp cites observations by Lyman K. Steil, a former University of Minnesota professor who is president of Communication Development Inc., a consulting firm in St. Paul, Minn. He has developed and carried out programs designed to improve employees' listening skills. His programs have ranged from a multimillion-dollar, listening-oriented advertising campaign some years ago for Sperry Corp.—now Unisys—to training for countless small and midsized enterprises.

"Overall," Steil says, "if each of America's more than 100 million workers prevented just one $10 mistake by better listening, their organizations would gain over $1 billion in profits. A $10 mistake is as simple as a few minutes' error in the time of a meeting, putting an item of stock in the wrong place, or having to retype a letter."

Knapp says that effective listening—or power listening—can be used to help persuade, motivate, improve productivity, boost morale, obtain cooperation, sell, teach, inform, or achieve other goals. "Effective listening is continually active, not passive," she says. "For example, to draw out information from the other person and get the whole story, actively show that you're listening. We train people in a number of techniques that are very simple—and very effective," such as gestures and comments.

Gestures and mannerisms can communicate interest. Lean forward rather than back while listening, Knapp suggests. Nod occasionally to show comprehension. Smile. Look directly at the person speaking. Comments such as "I see" and "Go on" can show that you are attuned to what the speaker is saying. When used with sincerity, these tactics can pay dividends.

Another way to improve listening is to take notes, Knapp says. "It helps make you focus on the highlights of what's being said. And the other person, seeing you write things down, will usually try to maximize accuracy and clarity. One word of caution: Too much note-taking may make some people angry or nervous and uncommunicative."

Consultant Steil has found that note-taking also works in phone conversations. He cites the example of a salesman who habitually made comments such as, "Just a second—could you mention that again—I want to write it down." In the salesman's view, "better listening made better sales." Customers became more precise in explaining their needs, he said, and they were favorably impressed with his diligence for detail.

Business people in various fields have adopted effective-listening tactics. For example, Dan Fazenden, president of Roger Fazenden Realty Inc., a real-estate company near Minneapolis, says: "I use the 'plan-to-report' principle. When someone tells you something, listen so intently that you could report it all to someone else."

It is important to "listen for what isn't said," Knapp says, as well as to ask questions. She stresses two important rules:

"*Never* end a conversation without being sure what was said—and why. Furthermore, don't pretend you understand when you don't. Chances are the speaker, not you, caused the confusion. So don't walk away and later make mistakes that you, not the speaker, will be held responsible for."

Once your employees become good listeners, it will pay you in turn to listen to those listeners, says auto dealer John Zimbrick of Madison, Wis. Zimbrick's employees listen to customers to determine their attitudes, and management keeps current on the employees' findings. "It can be even more effective than customer-research projects," says Zimbrick. "Many firms can't afford specialized customer research. This can do the job better."

The other side of power listening is the power to make other people listen. Knapp explains: "One of the most skillful communicators I know of has an office position in a medium-sized business. When she senses somebody isn't listening, she stops talking. She lets two or three seconds tick away. The other person 'hears' this pause and gets back to listening." Other effective tactics, she says, include leaning forward, standing up, gesturing, asking a question.

For a typical employee, Knapp says, time spent communicating during the workday may be as high as 50 percent, and for top managers, the figure can reach 75 percent. "An average 45 percent of this time is spent listening," she says. "So, either for an individual or an organization, when you polish up listening skills, you may well be tapping into your greatest undeveloped success resources." NB

Tom W. Harris is a writer and communications consultant in Pittsford, N.Y.

Personal Management

To Your Health

By Norman Brown

Beyond The Fringe: Late Word From The War On Baldness

Male-pattern baldness—the most common form—begins with a bald spot on the crown and a receding hairline at the temples, and it spreads until eventually all the top of the head is bald. It has been explained by many strange theories over the years. Among them: An active brain uses up the blood supply that nourishes the scalp. Another: Loss of hair is an outward sign of high breeding and intelligence.

The latter theory at least touches on the question of heredity. Scientists currently believe that each person's hair is genetically programmed to respond to certain hormones. A male hormone, androgen, contributes to baldness. Women, it seems, are protected by the female hormone estrogen until menopause; the hair loss that can follow menopause is usually much less complete and swift than hair loss in men.

Gene-ordained balding was always beyond the reach of science, but now a prescription medication can help slow balding in some men: minoxidil, which is marketed as Rogaine. It was prescribed as an oral medication for hypertension for nine years before it won Food and Drug Administration approval last year to be prescribed in lotion form, to combat baldness.

Treatment with minoxidil "should begin at an early stage in thinning," says Dr. Steven Victor, dermatologist at New York's Beth Israel Hospital, "because minoxidil is far better at slowing or stopping pattern baldness than at growing hair."

The drug is effective only on the crown of the head—it can fight a bald spot, but not a receding hairline.

Minoxidil should be applied to the scalp twice a day until it begins to take effect (usually after about six months)

Norman Brown is a Providence, R.I., writer who specializes in health topics.

PHOTO: © DONNA CANTON—MACLEAN

For many an American male, a glance in the mirror confirms that his hair is in retreat—but science now offers some hope of slowing baldness's advance.

and once a day thereafter. According to Dr. John Voorhees, dermatology chairman at the University of Michigan, about 40 percent of the men who use minoxidil should see "satisfactory results" within nine months. A one-month supply costs $50 to $60, and minoxidil must be applied faithfully for at least the first few months; if even a few regular applications are missed, hair loss will resume.

Researchers are now testing the addition of a penetrating agent to minoxidil, which may make that drug more effective. Although minoxidil can speed up the heart rate when taken orally, there is no convincing evidence that it does so when applied to the scalp. No long-term studies have yet been done, however.

Another kind of baldness—spotty baldness, or alopecia areata—can occur at any age and may affect other parts of the body as well as the head. The cause is unknown, but an abnormal immune response is suspected. The condition often clears up after a few months, particularly if there are just a few spots and it first occurred in adulthood.

The outlook is less favorable for spotty baldness that begins in childhood or if hair loss is widespread. Occasionally, all body hair is lost, with emotionally devastating results.

Some diets can cause temporary baldness because they deprive the body of protein—the major constituent of hair. And, says Dr. Martin Weinstock, dermatologist at Brown University Medical School, excessive vitamin or mineral intake can aggravate hair loss.

What if baldness is not an imminent threat, but you want to keep what you have? Bear in mind that hair grows slowly—about a half inch a month—and that, as Dr. Victor says, "as you age, follicles get smaller and yield shorter, thinner, and more fragile hair." Shampooing, even daily, will not increase hair loss, but vigorous scalp massage or frequent brushing can break hair mechanically.

Dr. Victor's advice: Shampoo and dry your hair gently—and avoid scalp massage. Neither the scalp nor the hair roots need it. And hold brushing and combing to a minimum.

To make your hair *look* fuller and thicker, use a shampoo formulated for fine hair, and a protein-based conditioner or mousse. The conditioner won't nourish your hair (only a healthy diet will), but it will minimize tangling and breaks. NB

It's Your Money

By Paul N. Strassels

The Family That Works Together . . .

Encourage your children to work this summer. Everyone benefits—you, your kids, and their employers, especially if the youngsters work for you.

Financial issues aside, working children begin to develop a valuable work ethic, a work history that should help them land that first position when they graduate from school, and an appreciation of the long hours you toil. What's more, they can save their earnings to pay for tuition, room, board, and other expenses, meaning less cost for you.

This year, each child can earn, income-tax-free, a bit more than the $3,000 that was the standard deduction for single taxpayers in 1988; the amount will be increased for 1989 to reflect inflation.

Even if your youngsters work all summer, and perhaps over Thanksgiving and Christmas vacations, it's unlikely they will exceed this ceiling. To reach $3,000, each will have to work 15 weeks, 40 hours a week, at $5 an hour. And any amount that they do earn beyond the standard deduction is lightly taxed.

The child does not claim his own personal exemption on his return. As long as your child is a full-time student, you claim the child as your tax dependent, assuming, of course, that you furnish more than half the child's support.

If you operate your own firm, incorporated or not, consider hiring your youngsters. If your business is unincorporated and the kids are under 18, you won't even have to pay Social Security tax on their salaries.

Of course, the reasonable salary you pay all your employees is deductible by your firm as a business expense. Just be sure to pay a fair wage for the work performed. Remember, even young teens can file papers, operate your computer, answer the phone, sort files, and so on. The courts have upheld the deductibility of salaries paid by a business owner who hired preteens at minimum wage to keep up the grounds around the office. Or follow the example of one enterprising business owner who had four teenagers. He paid the three youngest to work; the eldest received a larger salary for supervising the others.

PHOTO: T. MICHAEL KEZA

Need some papers filed or some phones answered at your company? Consider hiring your children. It can help them develop a valuable work ethic, a work history, and an appreciation of the long hours you toil. What's more, they can save for school expenses. And your firm can deduct what you pay them—as long as it's reasonable.

Sorry, No Depreciation

When property is held for sale in the ordinary course of business, you cannot claim an allowance for depreciation; but when it is used in your trade or business, depreciation is proper. The distinction is important, as a home builder recently found out when the Internal Revenue Service turned down his depreciation deduction for houses he used temporarily as models and sales offices. The reasons: The buildings were used for only a short portion of their useful lives for business, and the builder always intended to sell them.

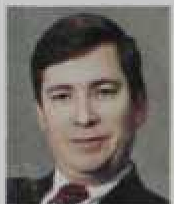
Remainder Trusts You Can Trust

The IRS has finally issued sample forms to be used by those who want to set up inter-vivos charitable-remainder annuity trusts and unitrusts that will satisfy all the detailed requirements set out in the tax law. With these pre-approved IRS forms, you can reap significant charitable deductions while living and have substantial amounts donated to recognized charities after your death, confident that your generosity will not run afoul of the IRS. See your attorney for all the details.

What Nest For Your Egg?

By the end of 1988, private-trusteed retirement plans held $1.274 trillion in pension assets, according to the Washington, D.C.-based Employee Benefit Research Institute. These plans have enjoyed a 12 percent annual growth rate over the past six years, which saw wide fluctuations in interest rates and the 508-point drop in the Dow Jones Industrial Average in October 1987. The question is: How well have you been doing in managing your retirement savings? And if you are not doing as well, why not?

Many people have individual retirement accounts dating from the early 1980s, when these tax-deductible retirement accounts were available to every wage earner under age 70½. Beginning in 1987, many workers stopped making annual contributions to their IRAs because they could no longer deduct what they put into their accounts. In addition to IRAs, many employees participate in SEP-IRA plans and deferred-compensation plans sponsored by their employ-



Paul N. Strassels, president of Money Matters Inc., Burke, Va., is a tax-law specialist and financial adviser.

Whether you live the good life or just get by in retirement could depend on how actively you manage your nest egg. Moving your money when necessary to gain the best return can mean a couple of percentage points now and hundreds of thousands of dollars in later years.

ers. Self-employed individuals can take maximum advantage of the generous contribution limits available under Keogh retirement plans.

Whatever retirement savings you have, you must play an active role in the management of your nest egg. You cannot afford to leave the decisions regarding your retirement accounts to others, even if you cease making annual contributions. Active participation in these investment decisions requires more than simply leaving the money in a bank certificate of deposit and rolling the funds over every six months, and it means more than agreeing to leave your 401(k) funds in a long-term growth fund offered under the terms of the plan. It requires that you keep up with long-term trends affecting low-risk investments and, when necessary, move your money to gain the best return.

You cannot afford to accept a low return. A difference of 1 or 2 percentage points in rate of return can mean hundreds of thousands of dollars in retirement savings when compounded over time. Nothing could be more startling than actual figures.

Say you have $20,000 in an old IRA to which you are no longer making contributions. It is just sitting in a bank account earning 6 percent interest. If you leave that $20,000 in your retirement account at 6 percent, it will grow to $26,750 after 5 years, $35,000 after 10, $64,100 after 20, and $114,850 after 30.

If you took that $20,000 IRA and invested it at 9 percent, you would have $30,750 after 5 years, $47,350 after 10, $112,100 after 20 years, and $265,350 after 30.

At 12 percent, you would have $35,250 after 5 years, $62,100 after 10, $192,900 after 20, and $599,200 after 30.

And if you could earn 15 percent on your money, that $20,000 retirement account to which you are no longer making contributions would be worth $40,250 after 5 years, $80,911 after 10, $327,350 after 20, and $1,324,250 after 30 years.

In short, if you ignore the account, you'll have a little over $100,000 after 30 years. If you get involved by switching to higher yielding certificates of deposit (at 9 percent) you'll have more than $250,000. If you gear your investments to mirror the market professionals (at 12 percent), you'll wind up with almost $600,000. And if you invest to beat the market makers, you can see that nest egg grow to well over $1 million after 30 years.

Keep three factors in mind as you make and update investment decisions:

PHOTO © DAVID LISSY—FOLIO

- Check the inflation rate. Currently, it is running in the 6-percent range for the year. In 1987 and 1988, inflation was running at 4 percent. Your investments must exceed inflation; otherwise you lose ground. A 6-percent return on your retirement savings means you are only holding your own.
- Growth, interest, and dividends earned on tax-qualified retirement savings are tax-deferred until you withdraw the funds. It doesn't matter if the income is from savings certificates, tax-exempt securities, or capital gains. When you tap into your accounts, the amount withdrawn is taxed as ordinary income. So, go for the high yield and ignore taxes when you invest your IRA, Keogh, and 401(k) money.
- You can achieve above-market returns on your retirement savings with very-low-risk investments. You do not have to choose between meager interest rates and risky investments for your funds. Remember, all investments entail some risk, some more than others.

There are two types of retirement funds—those managed for you and those you manage yourself.

Retirement accounts managed for you include your firm's pension program and company-sponsored deferred-compensation plans. Often, you are asked to decide on the type of investment in which your money is invested, rather than on specific securities. For example, you may be offered four choices—short-term growth, short-term high-income, long-term growth, and long-term high-income. (Growth generally refers to stock investments. High-income means investments like Treasury securities and banks' certificates of deposit.) Typically, you can allocate your retirement savings among the various options as you see fit, at least once a year.

As for the retirement savings that you manage directly, you have lots of options. Bankers offer long-term and short-term certificates of deposit that currently can yield upwards of 9 percent (check the financial section of the newspaper). You can invest some or all of your funds in ultrasafe Treasury securities that are also in the 9-percent range. (Treasuries can be purchased through investment brokers or directly through the Bureau of the Public Debt.)

Perhaps mutual funds are your best choice. You can allocate your retirement nest egg among everything from aggressive growth funds to international funds, from precious-metals funds to income funds. Mutual funds come in all sizes, with various requirements and more than 20 different investment objectives. For a 180-page guide to more than 2,700 mutual funds, send $2 to the Investment Company Institute, P.O. Box 66140, Washington, D.C. 20035-6140.

The key to a prosperous retirement is how well you invest your retirement nest egg. Those who play an active role in how their money is managed will undoubtedly fare much better financially than those who sit back and accept a substandard rate of return. NB

For Your Tax File

A Tax Jolt By Design

By Gerald W. Padwe, C.P.A.

Producers of consumer products, along with others who use distinctive packaging materials, received a severe jolt recently in a ruling from the Internal Revenue Service. The IRS now requires that all package-design costs, for both established and new products, be included in inventory and not automatically deducted in the year incurred. Even worse, all capital design costs, whenever incurred, for any package designs that are *still in use* must be inventoried. It is irrelevant whether the design was created in-house or by an outside contractor, or was bought from a third party that produced it.

Because useful life of a package design is indeterminate, the IRS claims depreciation is not allowed. The agency does allow an elective 60-month, straight-line write-off for package designs, however, but only for products placed in service in tax years ending after March 5, 1989.

The severity of the IRS ruling is best demonstrated by two of its provisions: There appears to be no limit on how far back taxpayers must go in reconstructing package-design costs from earlier years for products in current use; and the 60-month amortization is available only for package designs placed in service in years ending after March 5, 1989. Older package designs cannot be deducted until they are abandoned.

Taxpayers must be careful to distinguish between package design and trademark expenses. Although trademark expenses were formerly amortizable over 60 months, the 1986 tax law repealed that practice. These expenditures now must be capitalized and can be deducted only when you dispose of the asset. As a result of this greater

Gerald W. Padwe is national director-tax practice for Touche Ross & Co. Readers should see tax and legal advisers on specific cases.

PHOTO: TOM SOBOLIK—BLACK STAR

Package-design costs now must be included in inventory and not automatically deducted in the year incurred, the Internal Revenue Service has ruled.

scrutiny of package-design costs, revenue agents may attempt to categorize more costs as trademark expenditures that cannot be amortized.

Being too aggressive in allocating between package-design costs and currently deductible costs also carries a sting. The 60-month amortization election requires that each package design be described and the tax cost of each stated. Examining agents will likely contend that design costs not originally identified in the election are ineligible for amortization.

The implementation procedures are somewhat complex. Package-design costs incurred before Jan. 1, 1987, are determined, and the total amount is picked up as additional income—generally over a six-year period. Design costs after 1986 are capitalized—either by amending appropriate tax returns or by reporting the total as additional income in a current year.

Some taxpayers and tax practitioners are dismayed at being required to reconstruct package-design costs from years far in the past if that packaging is still on the market. Surely, IRS could have taken a more moderate position by allowing taxpayers "retroactively" to elect the 60-month amortization for all package-design costs. In effect, taxpayers would only have to reconstruct design costs for the past six to eight years, since any costs incurred before that would presumably already have been placed in service and amortized.

The extreme retroactivity of the IRS ruling will undoubtedly generate a great amount of business resentment. Absent any softening of that position, however, taxpayers must try to reconstruct all relevant costs or face potential penalties.

Points On Home Buying

The Tax Court recently upheld an IRS ruling that points paid to a lender to refinance an existing home mortgage are not deductible but must be amortized over the life of the new mortgage.

Points may be immediately deducted in the year of payment, however, if the loan was used to *buy or improve* a principal residence and is secured by the residence. In addition, they may not exceed the points generally charged in the area. Points may be called loan origination fees, maximum loan charges, or premium charges.

In many real-estate markets, the seller often pays some or all of the buyer's points. This practice was started to assist the buyer, who may have insufficient cash for both the required down payment and the closing costs.

If a seller agrees to pay some of the points, he or she is reducing the selling price. If the person is selling a principal residence and purchasing a new one that qualifies for tax-free rollover treatment, the smaller gain does not result in any current tax benefit. The purchaser, however, will have forfeited an opportunity to claim a current deduction for points paid.

If you are a purchaser, the best strategy is to get the seller to agree to pay points, but before closing, offer to pay the points yourself in exchange for a lower purchase price. You receive a larger tax deduction, and the seller is likely to be in a slightly better position because commissions, recording fees, and other closing costs determined by the sales price also are reduced. NB

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Where I Stand

Results of this monthly poll are forwarded to top government officials in the White House and Congress.

1. Let Some Lawmakers Keep Campaign Funds?

A 1979 law prohibits members of Congress elected after that year from keeping unspent campaign contributions when they are defeated or retire. But about 200 members elected before 1980 and still serving are exempt from this law, and they can take unspent contributions into retirement. Election reformers want this exemption repealed. Defenders contend those elected before the provision was enacted should not be subjected to it ex post facto. Should senior members of Congress be permitted to convert campaign contributions into personal use when they leave Congress?

2. Narrow Definition

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Should Congress repeal Section 89 of the tax code?	85%	8%	7%
Should Congress enact a federal product-liability law?	54%	30%	16%

Send in your vote on the inserted postpaid card. Your views on any of these questions are also welcome as letters to the Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062.*

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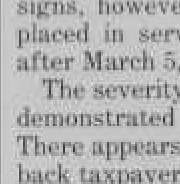

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2. Narrow Definition Of Campaign Expense?

Political candidates have broad leeway under federal law in differentiating between personal and campaign expenses. Campaign contributions have been used legitimately for formal wear, Super Bowl tickets, automobiles, and country-club dues. Election reformers contend expenditures of this type contribute to contempt for the election process. They want Congress to define campaign expenditures more precisely. Defenders of the current broad definition argue that candidates need substantial flexibility in determining bona fide political expenses. Should the definition of campaign expenditures be tightened?

3. Use Union Dues For Political Purposes?

Federal law prohibits unions from converting members' dues into campaign contributions. The law does allow unions to use dues revenue for such political activities as partisan voter-registration and get-out-the-vote drives. Defenders of this practice point out that the law permits corporations to use income for the same activities. Opponents point out there is a difference: No one has to buy stock in a company, but in many cases workers have to join unions to get and keep jobs. Should unions be allowed to use compulsory dues for partisan political activities?

Verdicts On April Poll

Here is how readers responded to the questions in the April issue.

	Yes	No	Undecided
Should Congress hike the minimum wage to $4.65 an hour?	22%	75%	3%
Should Congress repeal Section 89 of the tax code?	85%	8%	7%
Should Congress enact a federal product-liability law?	54%	30%	16%

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I am planning to open a small greenhouse/gardening center. Could you tell me where to get information on this business and where to obtain trade publications? Also, how do I find suppliers of garden supplies?
P.K., Hales Corners, Wis.

The nursery and garden-center business is becoming more competitive, according to the American Association of Nurserymen, 1250 I Street, N.W., Suite 500, Washington, D.C. 20005; (202) 789-2900. The association will send you, at no charge, a brief yet comprehensive outline of what you will need to start such a business. Topics in the outline include capital requirements, staff size, minimum inventory requirements, required management skills in record-keeping, and state and local regulations as well as local zoning laws. A list of suppliers can be obtained from the American Nurserymen Wholesalers Association at the same Washington address. You also should contact your state nursery association.

Giving Employees The Business

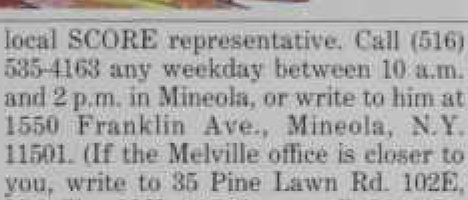
I have been in the restaurant business for 26 years, and I am thinking about helping out two loyal, long-term employees. I would like to know a good way to turn the business (it is an S corporation) over to them but still draw a salary out for myself for a few years as a silent owner or partner. Then I would turn it completely over to them in three to five years. These folks have very little money to invest. Perhaps you could guide me to some experts.
F.L., Bethpage, N.Y.

Start with the Small Business Administration's Service Corps of Retired Executives (SCORE), says Leo Astroff, your local SCORE representative. Call (516) 535-4163 any weekday between 10 a.m. and 2 p.m. in Mineola, or write to him at 1550 Franklin Ave., Mineola, N.Y. 11501. (If the Melville office is closer to you, write to 35 Pine Lawn Rd. 102E, Melville, N.Y. 11747, or call 516/454-0771.) Astroff says he turned his own business over to his employees, so he is familiar with how it can be done. He says that you will need a lawyer to handle the transaction.

Do-It-Yourself Decorating

We are interested in opening a "do-it-yourself" store, specializing in ceramic, vinyl, and marble tile. Since our future store could be very detailed and complex, we are seeking all information on the do-it-yourself industry.
R.S., Sugarland, Texas

We are interested in expanding our



wallpaper retail business into a larger home-decorating-center market. Where can I find marketing, demographic, and industry statistics that I can use for the Charlottesville, Va., area?
D.R., Charlottesville, Va.

There are about 20,500 decorating centers across the nation, says Karen Mandle of the National Decorating Association, and the number could grow to 22,500 by next year. Many paint stores also are adding home-design product lines. Mandle can furnish nonmembers with some general industry information and marketing statistics, such as yearly product sales and consumer demographics. *Decorating Retailer*, the association's magazine, features articles on "do-it-yourselfers." The publication is free to members; a trial copy can be sent at no charge to a nonmember upon request. For more information, contact the association at 1050 North Lindbergh Blvd., St. Louis, Mo. 63132; (314) 991-3470.

Hoping To Harvest Herbs

I'm interested in starting an herb-farming business. Where may I find information on start-up and marketing?
D.D., Lake Charles, La.

The International Herb Growers Association will send you a sample newsletter for $3, and it will arrive with a membership application. With membership, you can obtain product directories and catalogs. The association's address is P.O. Box 281, Silver Spring, Pa. 17575. The American Herb Association, at P.O. Box 99, Rescue, Calif. 95672, primarily researches new uses for herbs, but it can give you names of herb-business consultants. Consultants charge approximately $20 an hour and can evaluate special variables such as your area of the country and your individual budget needs.

Gator Aid

Where can I get information on starting an alligator farm?
J.D., Tallulah, La.

"Approximately 55 licensed farmers in Louisiana raised about 15,000 alligators for food and hides last year," says Karl Turner, a spokesman for the Louisiana Seafood Promotion and Marketing Board. "With alligators, you get a double bang for your money because the hides are worth more than the meat."

Louisiana wants to expand foreign and domestic markets for alligator meat and would like to see a tannery in the state. Turner says most hides now are exported to France. Alligators came off the endangered-species list in Loui-

siana in 1981 and throughout the South last year, and alligator meat is being promoted as an appetizer in London. "I don't think alligator will become a main course, but its popularity will continue to increase in restaurants," says Turner. Other markets interested in the importation of alligator meat and hides include China, Korea, and Japan.

For marketing information and names of buyers, call Turner at the Louisiana Seafood Promotion and Marketing Board in Baton Rouge, (504) 765-

Direct Line

2944 or in New Orleans, (504) 568-7685. For the mechanics of setting up a farm, write or call Ted Joanen, or his assistant David Richard, the alligator specialists at the Rockefeller Wildlife Refuge, Route 1, Box 20B, Grand Chenier, La. 70643; (318) 538-2276.

Preparing To Go Abroad

Where can I write for information on how to prepare a domestic company for doing business internationally? We sell computer software and hardware products and see opportunities in international markets, but we don't yet have enough background information to ask specific questions.
R.L., San Jose, Calif.

Government offices at both the federal and the state levels can instruct you in how to start marketing a product overseas. Begin with your district office of the federal International Trade Administration, Box 3601, 450 Golden Gate Ave., San Francisco, Calif. 94102; (415) 556-5860. The office can give you information on export regulations, the general business climate in countries that you target, and product standards for their computer markets. The agency can put you in touch with trade specialists, acquaint you with its library of resources, and tell you about its seminars that can help you get started; a seminar costs $25.

Because yours is a California company, you should contact the California State World Trade Commission, which wants to help companies in the state increase business opportunities overseas. You can call the commission's Los Angeles export office, (213) 590-5965, to talk with trade specialists and develop foreign-marketing plans.

Importing Ginseng

I would like to establish a ginseng business. Where can I get the information?
N.W., Elgin, Ill.

Ginseng, a root grown in China and renowned for purported medicinal properties, cannot be imported as a drug or a food additive. An expert at the Center of Food Safety and Applied Nutrition, within the regulatory-guidance division of the U.S. Food and Drug Administration, says that if you don't make any therapeutic or nutritional claims, you

can legally sell the water extract of ginseng. In other words, ginseng tea and flavoring are permissible. You can obtain an import price list by writing to China National Medicines and Health Products, 81 Stalin Jie, Chang Chun, Jilin, People's Republic of China.

German Toolmakers

How would I obtain a list of companies in Germany that manufacture quality hand tools and automotive-repair equipment?
J.S., Lafayette, La.

The German American Chamber of Commerce, at 666 5th Ave., New York, N.Y. 10103; (212) 974-8830, has information on its members by industry category. When you contact the chamber, you may be put in touch directly with manufacturers in Germany.

Dry-Cleaning Articles

I am looking for information regarding publications for the dry-cleaning business in the U.S. I understand there is a national organization that a small cleaning establishment can join.
E.M.B., Fairmont, W.Va.

You can join the International Fabricare Institute (IFI) at 12251 Tech Rd., Silver Spring, Md. 20904. This educational and research center for the industry publishes *Fabricare News*, *Focus*, and *Special Reporter*. All three publications highlight in-depth studies on the technical aspects of the dry-cleaning and laundry business. Membership fees vary based on an establish-

ment's location and volume of business. You can obtain information on the IFI by mailing your request marked "Attention: Membership."

Mail-Order How-Tos

I am interested in starting a mail-order business. I would like some information on the industry, dos and don'ts of mail-order, and requirements for starting this type of business.
B.L., Huntington Beach, Calif.

Contact the National Mail Order Association (NMOA) at 5818 Venice Blvd., Los Angeles, Calif. 90019; (213) 934-7986. You can join for $42 per year. The NMOA publishes *Mail Order Digest*, a monthly newsletter covering new-product sources, business-building opportunities, and direct-mail techniques; it also contains a section called "Washington Newsletter," which focuses on government regulations affecting the industry.

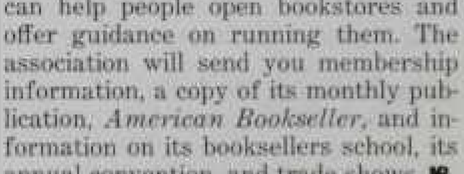
Paul Muchnick, chairman of the NMOA advisory board, cautions that not all business people succeed in the mail-order business.

Write the NMOA for a free informational membership packet, which contains a copy of *Mail Order Digest*, and a list of mail-order books on starting a business.

Bookstore-Business Browsing

I am interested in opening a bookstore, and I would appreciate all the information I can get on this subject. My main items of concern are locating vendors, information on financing, and legal requirements to be met when starting a store.
D.C., Broomfield, Colo.

I am interested in opening a bookstore. Where can I get information on start-



up, planning, and management?
M.T., Hillsboro, Mo.

The American Booksellers Association can help people open bookstores and offer guidance on running them. The association will send you membership information, a copy of its monthly publication, *American Bookseller*, and information on its booksellers school, its annual convention, and trade shows. **NB**

Have a business-related question?

Write to: Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space.

The editors of Direct Line have compiled the most-asked questions into a compact guide, at $3 a copy. To order, call (202) 463-5433 or write to Diane Lewis at the address above.

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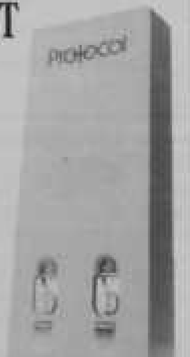

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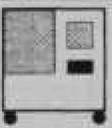

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COMMENTARY

A Data Deficit Masks Our Economic Strength

By Warren T. Brookes

One of the most persistent and damaging attacks on the "supply-side" economic policies of the Reagan era is the apparent decline in the already weak U.S. savings and investment rates, which the 1981 tax cuts were supposed to remedy.

As the recent annual majority report of the Joint Economic Committee of Congress argues: "The nation simply consumes so much of its output that there is not enough left over or saved to meet its investment needs. The nation has met this savings shortfall by borrowing overseas to finance its investment."

On the surface, at least, U.S. Commerce Department data seem to support that conclusion. Personal savings from 1980 to 1988 averaged 5.4 percent of disposable personal income. That is down sharply from the 8 percent of the period 1970-79, and it is even below the 6.8 percent of the 1960s and 1950s.

Moreover, at the end of June the U.S. Commerce Department will release its annual analysis of the international investment position of the U.S., which is expected to show that the nation's "net debtor" position has worsened, from "owing" $368 billion to the rest of the world in 1987 to being somewhere in the range of $460 billion to $500 billion "in debt" in 1988.

If savings and investment are falling so low and our debt is rising so high, why does the U.S. economy seem to perform so well? One answer is bad data.

The U.S. "data deficit" is even bigger than its trade/budget deficit. In fact, Michael Boskin, chairman of President Bush's Council of Economic Advisers, announced in April a "new initiative to improve the quality of our economic statistics."

Boskin said in a recent interview: "The basic fact is that the economy has changed a lot. Yet we still collect data as if the economy is the same as it was 20 years ago. For example, how do you count computer software? Is it current expense or investment?"

That's a good question, because U.S. productivity gains increasingly are coming from investment in software rather than hardware—and from geometric increases in computing capacity that are almost impossible to "count." A $50,000 piece of software can often generate 10 times the output gain of a like amount of machinery. The annual "deflation" in costs per million bytes of information has been so astonishing that current dollar accounting of investment is statistically misleading.

Said Boskin: "Real [after inflation] investment as a share of GNP [gross national product] has actually been very high for the last several years. But the public rhetoric focuses entirely on nominal [inflated] investment, which ignores the fact that investment-goods prices have risen very little. That's misleading us on investment."

Our "data deficit" ... is causing us to make bad policy decisions on problems that either don't exist or are a lot less serious than the crude data might suggest.

Warren T. Brookes is a nationally syndicated columnist on economic issues.

Indeed it is. In current dollars, gross private business investment fell from 11.8 percent in 1980 to 10.1 percent in 1988, the worst number since 1972. But in constant 1982 dollars, gross business investment rose from 11.5 percent in 1980 to 12.3 percent in 1988, and in the 1980s it has been at the highest relative level since World War II.

A somewhat similar picture develops when you examine the personal savings rate, now calculated by subtracting personal consumption from disposable, or after-tax, personal income. But that ignores the fact that over the past two decades more and more "savings" and total compensation are in the form of pre-tax payments to social and health-insurance programs as well as non-taxed or tax-deferred contributions to pension funds.

At the same time, the personal savings rate number ignores the rise in capital values of homes and other financial equities, which increase the nation's effective savings rate.

Recently, economists at the Federal Reserve Bank of St. Louis reported that by using this broader base, the total personal savings rate in the 1980s came to 24.4 percent, compared with 24 percent in the 1970s, 17.5 percent in the 1960s, and 13.6 percent in the 1950s. Again, we are being misled by bad data.

But nothing matches the erroneous accounting of the U.S. "net debtor position." In 1988, the Commerce Department reported that we "owed" the rest of the world some $368 billion. Yet, on the same date it reported—based on Federal Reserve flow of funds—that we earned $20 billion more from our foreign investments than we paid our foreign investors—an impossible combination of figures.

Last October the Rand Corp. published a study showing that because the Commerce Department is required by law to carry international investments at book rather than current market value, it was badly underestimating our relative foreign investments and overestimating our "debtor" status.

In a 1989 study for Washington's Cato Institute, State Department economists William Dewald and Michael Ulan, using market earnings values, showed that in 1987, the U.S. was a "net creditor" to the tune of $197 billion, not much below our 1981 "creditor status" of $214 billion on the same value basis. This is because Commerce underestimated the value of U.S. foreign investments by $500 billion to $700 billion on earnings/market value.

In short, the U.S. economy is a lot stronger investor and saver than the current superficial data suggest, and President Bush needs the support of the business community in cleaning up our "data deficit," which is causing us to make bad policy decisions on problems that either don't exist or are a lot less serious than the crude data might suggest. NB

COMMENTARY

Congressional Alert

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

White-Collar Crime

PHOTO: © STACY PICK—UNIPHOTO

The Senate Judiciary Committee has scheduled hearings on S. 438, introduced by Sen. Dennis DeConcini, D-Ariz. The bill would permit consumers to receive punitive damages of twice the actual damages when the defendant has acted with "conscious and wanton disregard" for consumer safety.

The bill, a measure to reform RICO—the Racketeer Influenced and Corrupt Organizations Act—would eliminate triple damages when there were alternative remedies in state or federal securities laws, though not in cases in which a government body is the plaintiff or the defendant has lost a previous RICO action. The bill would create a three-year statute of limitations in most cases and would address the award of attorneys' fees in frivolous cases.

A similar bill, H.R. 1046, has been introduced in the House by Rep. Rick Boucher, D-Va.

In 1970, Congress enacted the RICO statute as part of the Organized Crime Control Act. RICO's purpose was to inhibit organized criminal activity and to protect innocent businesses from victimization by organized crime.

Recently, civil RICO claims have been added to ordinary commercial lawsuits, with the result that many respected businesses have been caught up in civil RICO litigation. The U.S. Chamber of Commerce supports efforts to reverse the trend of using civil RICO provisions almost exclusively against legitimate businesses or in routine commercial disputes.

Urge your senators and representatives to support civil RICO reform.

Tax Incentives For Education

PHOTO: © PETER GARFIELD—FOLIO INC.

The fate of the tax exemption for employee educational assistance remains uncertain. This exemption, Section 127 of the Internal Revenue Code, which provided increased educational and economic opportunities for employees by excluding from their gross income the value of employer-provided educational assistance, expired at the end of 1987. Millions of workers have participated in such programs. Legislation to reinstate permanently the favorable tax treatment for employee educational assistance has been introduced by Sen. Daniel Patrick Moynihan, D-N.Y. The bill, S. 260, would restore the exclusion beginning this year.

Employee educational assistance has significant bipartisan support in Congress. Supporters recognize that this educational tax incentive is important for the nation's competitiveness in world markets.

Permanent extension of this valuable tax incentive would allow employers and employees to plan their educational programs more effectively and would avoid troublesome delays caused by the lapsing-authorization process.

Contact your senators and urge them to support the permanent reinstatement of Section 127.

Repeal Of Estate "Freeze" Change

PHOTO: © GARY KRIST—UNIPHOTO

A recent tax-law change can make it very difficult for a family business to pass from one generation to the next. The change was enacted without hearings or debate, and many who will be affected by it are just now discovering its existence.

Section 2036(c) of the Internal Revenue Code altered the rules for an estate "freeze," which typically involved an aging founder recapitalizing the business in order to minimize estate taxes when the business passed to heirs.

The first $600,000 of an estate is exempt from federal estate tax, but many small businesses and farms are worth far more. The tax begins at 37 percent of amounts above $600,000 and increases to 55 percent of amounts above $3 million.

If an estate has insufficient cash to pay taxes, the business may have to be sold.

Rep. Bill Archer, R-Texas, has introduced H.R. 60 to repeal Section 2036(c). Sen. Steve Symms, R-Idaho, has introduced S. 659, a similar bill.

Contact your representatives and senators to urge them to support H.R. 60 and S. 659.

COMMENTARY

Editorial

Lowering the capital-gains tax rate makes both fiscal and political sense: It would produce more revenues and could ease pressures for raising taxes.

Congress Should Look To A Tax Cut, Not An Increase, To Curb The Deficit

The bipartisan budget agreement between President Bush and the congressional leadership calls for $5.3 billion in new but unspecified revenues. The compromise plan is designed to meet deficit-reduction requirements for the year beginning Oct. 1.

Bush's acceptance, some of his critics argue, has set the stage for a breach in his oft-stated campaign pledge, "no new taxes."

The president, however, says he stands firmly behind that commitment.

In a recent appearance before the annual meeting of the U.S. Chamber of Commerce, the president pointed out that the higher revenues could, in fact, be achieved through a tax-rate reduction. Specifically, Bush urged restoration of the tax-rate differential on capital gains. He told the Chamber members:

"I mean to live by what I've said: no new taxes. ... We don't have to raise taxes. We have to release the energies of free enterprise. In a growing economy, tax revenues will take care of themselves. In fiscal 1990 alone, thanks to expanding economic activity, the Treasury will take in more than $80 billion in increased revenues, not through higher taxes but under the existing tax structure—$80 billion more in one year.

"So let's not be hunting for ways to wring another dollar in taxes out of our economy. Let's concentrate on creating conditions for continued growth."

Those conditions, President Bush added, should include restoration of the capital-gains differential. He said:

"I am absolutely convinced that in 1990 alone, this step would bring an extra $4.8 billion into the Treasury, and that doesn't count increased economic activity that is spurred by a lower tax rate. That $4.8 billion is the lion's share of the $5.3 billion we need in the way of new revenues under our budget agreement."

As the president points out, a lower capital-gains rate encourages investments in activities that create jobs, increase productivity, and generate income. Realization of gain on those investments produces income subject to taxation. Conversely, a higher rate discourages realization of gains and depresses the amount of income subject to taxation.

Global Rates

(On 1989 gains by individuals from portfolio stock investments)

Countries	Maximum % Short-Term	Maximum % Long-Term
U.S.	**33**	**33**
Australia	50.25	50.25
Belgium	0	0
Canada	17.51	17.51
France	16	16
Germany	56	0
Italy	0	0
Japan	5	5
Netherlands	0	0
Sweden	45	18
United Kingdom	40	40 *
Hong Kong	0	0
Indonesia	35	35
Malaysia	0	0
Singapore	0	0
South Korea	0	0
Taiwan	0	0

Source: Prepared by Arthur Andersen & Co. for the Securities Industries Association; updated by the American Council for Capital Formation Center for Policy Research. * indexed

Consider the relative revenue impact of a 15-percent rate (which President Bush recommends as the maximum capital-gains levy) on $25,000 of realized gains vs. the present maximum 33-percent rate on no realized gains.

Transferred to a larger context, the Treasury Department estimates that the president's proposal for a lower capital-gains rate would mean a total of $16 billion in additional revenues through 1993.

Opponents of a lower rate argue that the net result would be a loss of revenue, but the record suggests that the Treasury Department's numbers are more accurate.

When capital-gains tax rates were steadily rising from the late 1960s through the mid-1970s, there was little growth in revenues from that source. When rates were lowered in 1978 and 1981, revenues from capital-gains taxes increased substantially.

High rates of taxation on capital gains have other major disadvantages, in addition to depressed revenue collections. They deter investments in start-up businesses, and they weaken the American position in international trade.

By discouraging investments in new businesses, high rates stifle the creation of jobs and curb technological innovation. University of New Hampshire professors John Freear and William Wetzel Jr. report in their extensive study of investments in start-up companies that "private individuals, not venture-capital funds, were the primary source of outside equity capital for new technology-based firms."

On the international scene, the U.S. is at a disadvantage because it taxes capital gains at much higher rates than most of its major European and Asian competitors. West Germany, Italy, South Korea, Taiwan, Singapore, and Hong Kong do not tax long-term capital gains. The top rate in Japan on both long-term and short-term gains is only 5 percent.

Restoring a capital-gains differential in this country would ease the additional burden that U.S. traders now carry.

The Bush plan for that restoration is one of several now pending in Congress. Details of a bill acceptable to Congress and the president must be negotiated.

The first step in that process is acceptance by congressional leaders of the basic premise that lowering the capital-gains tax rate makes both fiscal and political sense: It would produce more revenues and could ease pressures for raising taxes.

Congress rarely faces an easier choice. NB

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